

SYSCO CORP
Form 10-K
August 26, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 28, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6544

Sysco Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
1390 Enclave Parkway
Houston, Texas
(Address of principal executive offices)

74-1648137
(IRS employer
identification number)
77077-2099
(Zip Code)

Registrant's Telephone Number, Including Area Code:

(281) 584-1390

Securities Registered Pursuant to Section 12(b) of the Act:

Name of each exchange on

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Title of Each Class	which registered
Common Stock, \$1.00 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately \$20,952,930,000 as of December 28, 2013 (based on the closing sales price on the New York Stock Exchange Composite Tape on December 27, 2013, as reported by The Wall Street Journal (Southwest Edition)). As of August 13, 2014, the registrant had issued and outstanding an aggregate of 586,765,938 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the company's 2014 Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III.

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PART I

Item 1. Business

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Sysco,” or “the company” as used in this Form 10-K refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

Overview

Sysco Corporation, acting through its subsidiaries and divisions, is the largest North American distributor of food and related products primarily to the foodservice or food-away-from-home industry. We provide products and related services to approximately 425,000 customers, including restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers.

Founded in 1969, Sysco commenced operations as a public company in March 1970 when the stockholders of nine companies exchanged their stock for Sysco common stock. Since our formation, we have grown from \$115.0 million to \$46.5 billion in annual sales, both through internal expansion of existing operations and through acquisitions.

Sysco’s fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending June 28, 2014 for fiscal 2014, June 29, 2013 for fiscal 2013 and June 30, 2012 for fiscal 2012.

Sysco Corporation is organized under the laws of Delaware. The address and telephone number of our executive offices are 1390 Enclave Parkway, Houston, Texas 77077-2099, (281) 584-1390. This annual report on Form 10-K, as well as all other reports filed or furnished by Sysco pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on Sysco’s website at www.sysco.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

Proposed Merger with US Foods

In the second quarter of fiscal 2014, Sysco announced an agreement to merge with US Foods, Inc. (US Foods). US Foods is a leading foodservice distributor in the United States (U.S.) that markets and distributes fresh, frozen and dry food and non-food products to more than 200,000 foodservice customers including independently owned single location restaurants, regional and national chain restaurants, healthcare and educational institutions, hotels and motels, government and military organizations and retail locations. Following the completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas.

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately \$3.5 billion for the equity of US Foods, comprised of \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately \$4.7 billion as of September 28, 2013, bringing the total enterprise value to \$8.2 billion at the time of the merger announcement. As of August 13, 2014, the merger consideration is estimated as follows: approximately \$3.7 billion for the equity of US Foods, comprised of \$3.2 billion of Sysco common stock valued using the seven day average through August 13, 2014, and \$500 million of cash. US Foods' net debt to be assumed or refinanced was approximately \$4.8 billion as of June 28, 2014, bringing the total enterprise value to \$8.5 billion as of August 13, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

We have secured a fully committed bridge financing and expect to issue longer-term financing prior to closing. After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13%, of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. This merger is currently pending a regulatory review process by the Federal Trade Commission. We expect the transaction to close by the end of the third quarter or in the fourth quarter of calendar 2014. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay \$300 million to the owners of US Foods if the merger were cancelled, which would be recognized as an expense.

Operating Segments

Sysco provides food and related products to the foodservice or food-away-from-home industry. Under the accounting provisions related to disclosures about segments of an enterprise, we have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined by accounting standards. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to their customers. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to chain restaurant customer locations. Our other segments include our specialty produce and lodging industry products segments, a company that distributes specialty imported products, a company that distributes to international customers and the company's Sysco Ventures platform, a suite of technology

solutions that help support the business needs of Sysco's customers. Specialty produce companies distribute fresh produce and, on a limited basis, other foodservice products. Our lodging industry products company distributes personal care guest amenities, equipment, housekeeping supplies, room accessories and textiles to the lodging industry. Selected financial data for each of our reportable segments, as well as financial information concerning geographic areas, can be found in Note 21, "Business Segment Information," in the Notes to Consolidated Financial Statements in Item 8.

Customers and Products

Sysco's customers in the foodservice industry include restaurants, hospitals and nursing homes, schools and colleges, hotels and motels, industrial caterers and other similar venues where foodservice products are served. Services to our customers are supported by similar physical facilities, vehicles, material handling equipment and techniques, and administrative and operating staffs.

The products we distribute include:

- a full line of frozen foods, such as meats, seafood, fully prepared entrees, fruits, vegetables and desserts;
- a full line of canned and dry foods;
- fresh meats and seafood;
- dairy products;
- beverage products;
- imported specialties; and
- fresh produce.

We also supply a wide variety of non-food items, including:

- paper products such as disposable napkins, plates and cups;
- tableware such as china and silverware;
- cookware such as pots, pans and utensils;
- restaurant and kitchen equipment and supplies; and
- cleaning supplies.

A comparison of the sales mix in the principal product categories during the last three years is presented below:

2014	2013	2012
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Fresh and frozen meats	19	%	19	%	19	%
Canned and dry products	18		19		19	
Frozen fruits, vegetables, bakery and other	13		14		14	
Dairy products	11		10		10	
Poultry	10		10		10	
Fresh produce	8		8		8	
Paper and disposables	7		8		8	
Seafood	5		5		5	
Beverage products	4		4		4	
Janitorial products	2		2		2	
Equipment and smallwares	2		1		1	
Medical supplies (1)	1		-		-	
	100	%	100	%	100	%

(1) Sales are less than 1% of total for years shown with a “-“.

Our distribution centers, which we refer to as operating companies, distribute nationally-branded merchandise, as well as products packaged under our private brands. Products packaged under our private brands have been manufactured for Sysco according to specifications that have been developed by our quality assurance team. In addition, our quality assurance team certifies the manufacturing and processing plants where these products are packaged, enforces our quality control standards and identifies supply sources that satisfy our requirements.

We believe that prompt and accurate delivery of orders, competitive pricing, close contact with customers and the ability to provide a full array of products and services to assist customers in their foodservice operations are of primary importance in the marketing and distribution of foodservice products to our customers. Our operating companies offer daily delivery to certain customer locations and have the capability of delivering special orders on short notice. Through our approximately 12,800 sales and marketing representatives and support staff of Sysco and our operating companies, we stay informed of the needs of our customers and acquaint them with new products and services. Our operating companies also provide ancillary services relating to foodservice distribution,

such as providing customers with product usage reports and other data, menu-planning advice, food safety training and assistance in inventory control, as well as access to various third party services designed to add value to our customers' businesses.

No single customer accounted for 10% or more of Sysco's total sales for the fiscal year ended June 28, 2014.

We estimate that our sales by type of customer during the past three fiscal years were as follows:

Type of Customer	2014	2013	2012
Restaurants	62 %	61 %	63 %
Healthcare	9	10	10
Education, government	9	8	8
Travel, leisure, retail	8	8	8
Other (1)	12	13	11
Totals	100 %	100 %	100 %

(1) Other includes cafeterias that are not stand alone restaurants, bakeries, caterers, churches, civic and fraternal organizations, vending distributors, other distributors and international exports. None of these types of customers, as a group, exceeded 5% of total sales in any of the years for which information is presented.

Sources of Supply

We purchase from thousands of suppliers, both domestic and international, none of which individually accounts for more than 10% of our purchases. These suppliers consist generally of large corporations selling brand name and private label merchandise, as well as independent regional brand and private label processors and packers. Purchasing is generally carried out through both centrally developed purchasing programs and direct purchasing programs established by our various operating companies.

We administer a consolidated product procurement program designed to develop, obtain and ensure consistent quality food and non-food products. The program covers the purchasing and marketing of Sysco Brand merchandise, as well as products from a number of national brand suppliers, encompassing substantially all product lines. Sysco's operating companies purchase product from the suppliers participating in these consolidated programs and from other suppliers, although Sysco Brand products are only available to the operating companies through these consolidated programs. We also focus on increasing profitability by lowering operating costs and by lowering aggregate inventory

levels, which reduces future facility expansion needs at our broadline operating companies, while providing greater value to our suppliers and customers. This includes the construction and operation of regional distribution centers (RDCs), which aggregate inventory demand to optimize the supply chain activities for certain products for all Sysco broadline operating companies in the region. Currently, we have two RDCs in operation, one in Virginia and one in Florida.

Working Capital Practices

Our growth is funded through a combination of cash flow from operations, commercial paper issuances and long-term borrowings. See the discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources” at Item 7 regarding our liquidity, financial position and sources and uses of funds.

Credit terms we extend to our customers can vary from cash on delivery to 30 days or more based on our assessment of each customer’s credit worthiness. We monitor each customer’s account and will suspend shipments if necessary.

A majority of our sales orders are filled within 24 hours of when customer orders are placed. We generally maintain inventory on hand to be able to meet customer demand. The level of inventory on hand will vary by product depending on shelf-life, supplier order fulfillment lead times and customer demand. We also make purchases of additional volumes of certain products based on supply or pricing opportunities.

We take advantage of suppliers’ cash discounts where appropriate and otherwise generally receive payment terms from our suppliers ranging from weekly to 30 days or more.

Corporate Headquarters and Shared Services Center

Our corporate staff makes available a number of services to our operating companies. Members of the corporate staff possess experience and expertise in, among other areas, accounting and finance, treasury, legal, cash management, information technology, employee benefits, engineering, real estate and construction, risk management and insurance, sales and marketing, payroll, human resources, training and development, strategy, and tax compliance services. The corporate office also makes available warehousing and distribution services, which provide assistance in operational best practices including space utilization, energy conservation, fleet management and work flow.

Our shared services center performs support services for employees, suppliers and customers, payroll administration, human resources, customer and vendor contract administration, financial services such as vendor payments, invoicing, cash application, certain credit services, accounting and sales and use tax administration, procurement and maintenance support and sales support for some of our operating companies.

Capital Improvements

To maximize productivity and customer service, we continue to modernize, expand and construct new distribution facilities. During fiscal 2014, 2013 and 2012, approximately \$523.2 million, \$511.9 million and \$784.5 million, respectively, were invested in delivery fleet, facilities, technology and other capital asset enhancements. From time to time, we dispose of assets in the normal course of business; we consider proceeds from these asset sales to be an offset to capital expenditures. During fiscal 2014, 2013 and 2012, capital expenditures, net of proceeds from sales of assets, were \$497.4 million, \$496.3 million and \$776.3 million, respectively. We estimate our capital expenditures, net of proceeds from sales of assets, in fiscal 2015 should be in the range of \$500 million to \$550 million. During the three years ended June 28, 2014, capital expenditures were financed primarily by internally generated funds, our commercial paper program and bank and other borrowings. We expect to finance our fiscal 2015 capital expenditures from the same sources.

Employees

As of June 28, 2014, we had approximately 50,300 full-time employees, approximately 17% of whom were represented by unions, primarily the International Brotherhood of Teamsters. Contract negotiations are handled by each individual operating company. Approximately 21% of our union employees are covered by collective bargaining agreements that have expired or will expire during fiscal 2015 and are subject to renegotiation. Since June 28, 2014, there have been no contract renegotiations. We consider our labor relations to be satisfactory.

Competition

Industry sources estimate that there are more than 15,000 companies engaged in the distribution of food and non-food products to the foodservice industry in the U.S. Our customers may also choose to purchase products directly from wholesale or retail outlets, including club, cash and carry and grocery stores, or negotiate prices directly with our suppliers. Online retailers and e-commerce companies are also participants in the foodservice industry. While we compete primarily with local and regional distributors, some organizations compete with us on a multi-region basis. In addition, these local, regional and multi-regional distributors can create purchasing cooperatives and marketing groups to enhance their competitive abilities by expanding their product mix, improving purchasing power and extending their geographic capabilities. We believe that the principal competitive factors in the foodservice industry are effective customer contacts, the ability to deliver a wide range of quality products and related services on a timely and dependable basis and competitive prices. Our customers are accustomed to purchasing from multiple suppliers and channels concurrently. Product needs, service requirements and price are just a few of the factors they

evaluate when deciding where to purchase. Customers can choose from many broadline foodservice distributors, specialty distributors that focus on specific categories such as produce, meat or seafood, other wholesale channels, club stores, cash and carry stores, grocery stores and numerous online retailers. Since switching costs are very low, customers can make supplier and channel changes very quickly. There are few barriers to market entry. Existing foodservice competitors can extend their shipping distances, and add truck routes and warehouses relatively quickly to serve new markets or customers.

We consider our primary market to be the foodservice market in the U.S. and Canada and estimate that we serve about 17.4% of this approximately \$255 billion annual market based on a measurement as of the end of calendar 2013. We believe, based upon industry trade data, that our sales to the U.S. and Canada food-away-from-home industry were the highest of any foodservice distributor during fiscal 2014. While adequate industry statistics are not available, we believe that in most instances our local operations are among the leading distributors of food and related non-food products to foodservice customers in their respective trading areas. We believe our competitive advantages include our more than 7,000 marketing associates, our diversified product base, which includes a differentiated group of high quality Sysco brand products, the diversity in the types of customers we serve, our economies of scale and our multi-region portfolio in the U.S. and Canada, which mitigates some of the impact of regional economic declines that may occur over time. We believe our liquidity and access to capital provides us the ability to continuously invest in business improvements. We are the only distributor in the food-away-from-home industry in the U.S. with publicly traded equity. While our public company status provides us with some advantages over many of our competitors, including access to capital, we believe it also provides us with some disadvantages that most of them do not have in terms of additional costs related to complying with regulatory requirements.

Government Regulation

Our company is required to comply, and it is our policy to comply, with all applicable laws in the numerous countries throughout the world in which we do business. In many jurisdictions, compliance with competition laws is of special importance to us, and our operations may come under special scrutiny by competition law authorities due to our competitive position in those jurisdictions. In general, competition laws are designed to protect businesses and consumers from anti-competitive behavior.

In the U.S., as a marketer and distributor of food products, we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA). The FDA regulates food safety through various statutory and regulatory mandates, including manufacturing and holding requirements for foods through good manufacturing practice regulations, hazard analysis and critical control point (HACCP) requirements for certain foods, and the food and color additive approval process. The agency also specifies the standards of identity for certain foods, prescribes the format and content of information required to appear on food product labels, regulates food contact packaging and materials, and maintains a Reportable Food Registry for the industry to report when there is a reasonable probability that an article of food will cause serious adverse health consequences. For certain product lines, we are also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act, the Packers and Stockyard Act and regulations promulgated by the U.S. Department of Agriculture (USDA) to interpret and implement these statutory provisions. The USDA imposes standards for product safety, quality and sanitation through the federal meat and poultry inspection program. The USDA reviews and approves the labeling of these products and also establishes standards for the grading and commercial acceptance of produce shipments from our suppliers. We are also subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which imposes certain registration and record keeping requirements on facilities that manufacture, process, pack or hold food for human or animal consumption.

We and our products are also subject to state and local regulation through such measures as the licensing of our facilities; enforcement by state and local health agencies of state and local standards for our products; and regulation of our trade practices in connection with the sale of our products. Our facilities are subject to inspections and regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor. These regulations require us to comply with certain manufacturing, health and safety standards to protect our employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals present in products we distribute.

We are also subject to regulation by numerous federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, which regulates transportation of perishable and hazardous materials and waste, and similar state, provincial and local agencies. In addition, we are also subject to the U.S. False Claims Act, and similar state statutes, which prohibit the submission of claims for payment to the government that are false and the knowing retention of overpayments.

The U.S. Foreign Corrupt Practices Act (FCPA) prohibits bribery of public officials to obtain or retain business in foreign jurisdictions. The FCPA also requires us to keep accurate books and records and to maintain internal accounting controls to detect and prevent bribery and to ensure that transactions are properly authorized. We have implemented and continue to develop a robust anti-corruption compliance program applicable to our global operations to detect and prevent bribery and to comply with these and other anti-corruption laws in countries where we operate.

Outside the U.S., our business is subject to numerous similar statutes and regulations, as well as other legal and regulatory requirements.

All of our company's facilities and other operations in the U.S. and elsewhere around the world are subject to various environmental protection statutes and regulations, including those relating to the use of water resources and the discharge of wastewater. Further, most of our distribution facilities have ammonia-based refrigeration systems and tanks for the storage of diesel fuel and other petroleum products which are subject to laws regulating such systems and storage tanks. Our policy is to comply with all such legal requirements. We are subject to other federal, state, provincial and local provisions relating to the protection of the environment or the discharge of materials; however, these provisions do not materially impact the use or operation of our facilities.

General

We have numerous trademarks that are of significant importance, including the SYSCO® trademark and our privately-branded product trademarks that include the SYSCO® trademark. These trademarks and the private brands on which they are used are widely recognized within the foodservice industry. Approximately half of our privately-branded sales are from products labeled with our SYSCO® trademark without any other trademark. We believe the loss of the SYSCO® trademark would have a material adverse effect on our results of operations. Our U.S. trademarks are effective for a ten-year period and the company generally renews its trademarks before their expiration dates unless a particular trademark is no longer in use. The company does not have any material patents or licenses.

We are not engaged in material research and development activities relating to the development of new products or the improvement of existing products.

Our sales do not generally fluctuate significantly on a seasonal basis; therefore, the business of the company is not deemed to be seasonal.

As of June 28, 2014, we operated 194 distribution facilities throughout the U.S., Bahamas, Canada, Republic of Ireland and Northern Ireland.

Item 1A. Risk Factors

The following discussion of “risk factors” identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes contained in this report. The following discussion of risks is not all inclusive, but is designed to highlight what we believe are the most significant factors to consider when evaluating our business. These factors could cause our future results to differ from our expectations expressed in the forward-looking statements identified on page 48 and from historical trends.

Merger-Related Risks

The closing and consummation of the merger with US Foods, Inc. (US Foods) is subject to regulatory approval and the satisfaction of certain conditions, and we cannot predict whether the necessary conditions will be satisfied or waived and the requisite regulatory approvals received.

The completion of the merger with US Foods is subject to regulatory approvals, including anti-trust approval, and customary conditions, including, without limitation:

- the approval of the stockholders of US Foods;
- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- the accuracy of the representations and warranties in the merger agreement and compliance with the respective covenants of the parties, subject to certain qualifiers;
- the absence of any law, proceeding, order or injunction that prohibits the consummation of the merger;
- the absence of certain governmental actions;
- the absence of a material adverse effect on US Foods; and
- the receipt by US Foods of a customary tax opinion with respect to the merger.

Sysco and US Foods may fail to secure the requisite approvals in a timely manner or on terms desired or anticipated, and the merger with US Foods may not close in the anticipated time frame, if at all. Sysco has no control over certain conditions in the merger agreement, and cannot predict whether such conditions will be satisfied or waived. Regulatory authorities may impose conditions on the completion of the merger or require changes to the

terms of the transaction. Such conditions or changes may prevent the closing of the merger or cause the merger to be delayed, and delays may cause Sysco to incur additional, potentially burdensome transaction costs.

Sysco and US Foods may be required to accept certain remedies in order to obtain regulatory approval for the merger, and any such remedies could reduce the projected benefits of the merger and negatively impact the combined company.

The imposition of remedies as a condition to obtaining regulatory approval for the transaction could limit the revenues of the combined company and negatively impact the combined company. The potential remedies may negatively impact the projected benefits of the proposed merger, along with the business, financial condition and competitiveness of Sysco, as the combined company. Even if regulatory approval for the merger is obtained, any remedies could result in the total revenues of the combined post-merger entity being less than the combined historical revenues of Sysco and US Foods.

Termination of the merger agreement or failure to consummate the merger with US Foods could adversely impact Sysco and, under certain conditions, could require Sysco to make a termination payment of \$300 million, which could adversely impact Sysco's stock price and would adversely impact Sysco's liquidity and financial condition.

The merger agreement contains certain termination rights, including the right of either party to terminate the merger agreement if the merger has not occurred by March 8, 2015, subject to extension under certain circumstances. Furthermore, if the merger agreement is terminated due to a failure to obtain required antitrust approvals, in certain circumstances Sysco will be required to pay US Foods a termination fee of \$300 million. The payment of such fee would have an adverse impact on our liquidity and financial condition. In addition, if the merger agreement is terminated, we may suffer other negative consequences. Our business may be negatively impacted by our management having focused its attention on acquiring US Foods instead of pursuing other advantageous business opportunities or plans. Furthermore, we will incur substantial expenses and costs related to the merger, whether or not it is consummated, including legal, accounting and advisory fees. Also, failure to consummate the merger may result in negative market reactions, and may have an adverse impact on Sysco's stock price and future financial results.

Business uncertainties during the pendency of the proposed merger may adversely impact our current business operations and relationships with employees, vendors and customers.

Prospective suppliers, customers or other third parties may delay or decline to enter into agreements with us as a result of the uncertainties surrounding the proposed merger, and we may also lose current suppliers and customers as a result of these uncertainties. Furthermore, uncertainties as to the effect of the merger transaction may adversely impact employee morale, and impede our ability to retain key employees. The loss of key employees or union-related work stoppages could impact our ability to successfully integrate the businesses of Sysco and US Foods and fully realize the anticipated benefits of the merger.

The pending merger and our current pre-merger integration planning efforts may divert resources from Sysco's day-to-day operations and ongoing efforts related to other strategies and initiatives.

The pending merger and our current pre-merger integration planning efforts may divert our management's attention from day-to-day business operations and the execution and pursuit of strategic plans and initiatives, including the initiatives related to our Business Transformation Project, which has and will continue to require a substantial amount of resources. The diversion of management attention from ongoing business operations and strategic efforts could result in performance shortfalls, which could adversely impact Sysco's business and operations.

The integration of the businesses of Sysco and US Foods may be more difficult, costly or time consuming than expected, and the merger may not result in any or all of the anticipated benefits, including cost synergies.

The success of the merger between Sysco and US Foods, including the realization of the anticipated benefits, will depend, in part, on the ability of Sysco, as the combined company, to successfully integrate the businesses of Sysco and US Foods. Failure to effectively integrate the businesses could adversely impact the expected benefits of the merger, including cost synergies stemming from supply chain efficiencies, merchandising activities and overlapping general and administrative functions.

The integration of two large independent companies will be complex, and we will be required to devote significant management attention and incur substantial costs to integrate Sysco's and US Foods' business practices, policies, cultures and operations. This diversion of our management's attention from day-to-day business operations and the execution and pursuit of strategic plans and initiatives, including the initiatives related to our Business Transformation Project, could result in performance shortfalls, which could adversely impact the combined company's business, operations and financial results. The integration process could also result in the loss of key employees, which could adversely impact the combined company's future financial results.

Furthermore, during the integration planning process and after the closing of the merger, we may encounter additional challenges and difficulties, including those related to, without limitation, managing a larger combined company; streamlining supply chains, consolidating corporate and administrative infrastructures and eliminating overlapping operations; retaining our existing vendors and customers; unanticipated issues in integrating information technology, communications and other systems; and unforeseen and unexpected liabilities related to the merger or US Foods' business. Delays encountered in the integration could adversely impact the business, financial condition and operations of the combined company.

We may not be able to retain some of US Foods' vendors and customers after the proposed merger, which could negatively impact the anticipated benefits of the merger.

US Foods' vendors or customers may have termination rights that are triggered upon completion of the merger, and such vendors or customers may decide to not renew their existing relationship with us, and may instead select one of our competitors. If we are unable to retain and maintain these vendor and customer relationships, then the business, financial condition and operations of Sysco, as the combined company, could be adversely impacted.

Consummation of the merger will require Sysco to incur significant additional indebtedness, which could adversely impact our financial condition and may hinder our ability to obtain additional financing and pursue other business and investment opportunities.

In connection with the merger, Sysco will assume or refinance all of US Foods' outstanding debt, which was approximately \$4.8 billion, as of June 28, 2014. Any refinancing of US Foods' indebtedness is expected to be financed with a combination of new debt and cash on Sysco's balance sheet. Sysco has secured fully committed bridge financing.

Incurrence of additional indebtedness could have negative consequences, including increasing our vulnerability to adverse economic and industry conditions, and limiting our ability to obtain additional financing and implement and pursue strategic initiatives and opportunities. Additionally, if we do not achieve the expected benefits and cost savings from the merger with US Foods, or if the financial performance of Sysco, as the combined company, does not meet current expectations, then our ability to service the debt will be adversely impacted. Our credit ratings may also be impacted as a result of the incurrence of additional acquisition-related indebtedness. Currently, certain credit rating agencies have put us on watch for a potential downgrade.

The merger will dilute the ownership interests of Sysco's existing stockholders.

At the time of the consummation of the proposed merger, Sysco will issue approximately 87 million shares, or roughly 13% of Sysco's outstanding common stock after the transaction is completed. As a result, the ownership amounts of Sysco's pre-merger stockholders will be diluted. Generally, dilution will impact a stockholder's ownership percentage and ability to influence voting results, and will likely reduce earnings per share, which could impact stock price.

Industry and General Economic Risks

Periods of significant or prolonged inflation or deflation affect our product costs and may negatively impact our profitability.

Volatile food costs have a direct impact on our industry. Periods of product cost inflation may have a negative impact on our profit margins and earnings to the extent that we are unable to pass on all or a portion of such product cost increases to our customers, which may have a negative impact on our business and our profitability. In addition, periods of rapidly increasing inflation may negatively impact our business due to the timing needed to pass on such increases, the impact of such inflation on discretionary spending by consumers and our limited ability to increase prices in the current, highly competitive environment. Conversely, our business may be adversely impacted by periods of product cost deflation, because we make a significant portion of our sales at prices that are based on the cost of products we sell plus a percentage margin. As a result, our profit levels may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant.

Our results of operations and financial condition may be directly, adversely affected by unfavorable conditions in the US economy and local markets, as well as negative trends in consumer confidence.

The foodservice distribution industry, which is characterized by relatively low profit margins with limited demand growth expected in the near-term, is especially susceptible to negative trends and economic uncertainty. The United States (U.S.) has experienced an uneven economic environment over the past several years. Despite job growth experiencing a positive trend, it has yet to translate into a significant impact on overall unemployment. The housing segment is struggling to maintain consistent, positive trends, and this segment historically has been a key driver of economic growth. These factors indicate that consumer disposable income is increasing modestly. In addition, our results of operations are substantially affected by local operating and economic conditions, which can vary substantially by market. The difficult economic conditions can affect us in the following ways:

- Unfavorable conditions can depress sales and/or gross margins in a given market.
-

Food cost and fuel cost inflation experienced by the consumer can lead to reductions in the frequency of dining out and the amount spent by consumers for food-away-from-home purchases, which could negatively impact our business by reducing demand for our products.

- Heightened uncertainty in the financial markets negatively affects consumer confidence and discretionary spending, which can cause disruptions with our customers and suppliers.
- Liquidity issues and the inability of our customers, vendors and suppliers to consistently access credit markets to obtain cash to support operations can cause temporary interruptions in our ability to conduct day-to-day transactions involving the payment to or collection of funds from our customers, vendors and suppliers.

The uncertainty in the economic environment has adversely affected the rate of improvement in both business and consumer confidence and spending, and uncertainty about the long-term investment environment could further depress capital investment and economic activity.

Competition in our industry may adversely impact our margins and our ability to retain customers, and makes it difficult for us to maintain our market share, growth rate and profitability.

The foodservice distribution industry is fragmented and highly competitive, with local, regional, multi-regional distributors and specialty competitors. Furthermore, barriers to entry by new competitors, or geographic or product line expansion by existing competitors, are low. Additionally, increased competition from non-traditional sources (such as club stores and commercial wholesale outlets with lower cost structures), and group purchasing organizations have served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse impact on our operating results and profitability. Finally, demand for food-away-from-home products is volatile and price sensitive, imposing limits on our customers' ability to absorb cost increases. New and increased competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting. Such competition or other industry pressures may result in margin erosion and/or make it difficult for us to attract and retain customers.

Although our sales historically have grown faster than the market, industry growth rates have slowed over the past several years, and industry sources expect the lower growth rates to continue in the near-term. These trends have placed pressure on our profit margins and made it more difficult to leverage our cost structure and pass along cost increases. We expect these trends to continue for

the foreseeable future. If we are unable to effectively differentiate ourselves from our competitors, our market share, sales and profitability, through increased expenditures or decreased prices, could be adversely impacted.

We may not be able to fully compensate for increases in fuel costs, and forward purchase commitments intended to contain fuel costs could result in above market fuel costs.

Volatile fuel prices have a direct impact on our industry. We require significant quantities of fuel for our delivery vehicles and are exposed to the risk associated with fluctuations in the market price for fuel. The price and supply of fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. On average, on-highway diesel fuel prices decreased approximately 1% in fiscal 2014 and increased approximately 2% in 2013, respectively, as compared to the prior year. The cost of fuel affects the price paid by us for products, as well as the costs we incur to deliver products to our customers. Although we have been able to pass along a portion of increased fuel costs to our customers in the past, there is no guarantee that we will continue to be able to do so in the future. If fuel costs increase further in the future, we may experience difficulties in passing all or a portion of these costs along to our customers, which may have a negative impact on our business and our profitability. We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements at prices equal to the then-current forward price for diesel. If fuel prices decrease significantly, these forward purchases may prove ineffective and result in our paying higher than market costs for a portion of our diesel fuel.

Business and Operational Risks

Our ability to meet our long-term strategic objectives to grow the profitability of our business depends largely on the success of the Business Transformation Project.

Our multi-year Business Transformation Project consists of:

- the design and deployment of an Enterprise Resource Planning (ERP) system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- initiatives to lower our cost structure; and
- initiatives to lower our product costs.

Successfully managing deployment is critical to our business success. While we expect all of the components of the Business Transformation Project to enhance our value proposition to customers and suppliers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all.

The actual cost of the ERP system may be greater than currently expected and continued delays in the execution of deployment may adversely affect our business and results of operations.

ERP implementations are complex and time-consuming projects that involve substantial investments in system software and implementation activities over a multi-year timeframe. Our cost estimates related to our ERP system are based on assumptions which are subject to wide variability, require a great deal of judgment, and are inherently uncertain. Thus, the actual costs of the project in fiscal 2015 (and beyond) may be greater than currently expected. We have encountered, and we may continue to encounter, the need for changes in design or revisions of the project calendar and budget, including incurring expenses at an earlier or later time than currently anticipated. For example, we deployed our ERP system to five additional locations in fiscal 2014 and are continuing to experience improved functionality in many areas compared to past deployments; however, while the majority of the system functionality is performing as designed, we have continued to identify issues that we want to address before we continue deploying to additional locations.

In addition, implementation of the ERP system requires significant management attention and resources over an extended period of time and any significant design errors or delays in the implementation of the systems could materially and adversely affect our operating results. In addition, because the implementation is expected to continue to involve a significant financial commitment, our business, results of operations and liquidity may also be adversely affected if the ERP system, and the associated process changes, do not prove to be cost effective or do not result in the cost savings and other benefits at the levels that we anticipate. There can be no guarantee that we will be able to realize the intended results of the system software and implementation activities.

We may not realize anticipated benefits from our operating cost reduction efforts.

We have implemented a number of cost reduction initiatives that we believe are necessary to position our business for future success and growth. Our future success and earnings growth will be significantly impacted by our ability to achieve a lower cost structure and operate efficiently in the highly competitive food and beverage industry, particularly in an environment of increased competitive activity and low growth rates. A variety of factors could cause us not to realize some of the expected cost savings,

including, among other things, delays in the anticipated timing of activities related to our cost savings initiatives, lack of sustainability in cost savings over time and unexpected costs associated with operating our business. If we are unable to realize the anticipated benefits from our cost cutting efforts, we could become cost disadvantaged in the marketplace, and our competitiveness and our profitability could decrease. Furthermore, even if we realize the anticipated benefits of our cost reduction efforts, we may experience an adverse impact on our employees, customers and suppliers, which could negatively affect our sales and profits.

We may not realize the full anticipated benefits from our category management initiative.

We are in the midst of deploying our category management initiative which encompasses a rigorous process whereby we use market data and customer insights to optimize the product assortment available to our customers, strengthen strategic relationships with our suppliers, drive product innovation and increase our sales and profit margins. If our sales associates are not able to effectively gain acceptance of the new product assortment from our customers or are not able to absorb the significant administrative and process changes required, then we may not be able to successfully execute the category management initiative in the timeline we anticipate and we may not capture all of the financial and other benefits that we anticipate.

Conditions beyond our control can interrupt our supplies and increase our product costs.

We obtain substantially all of our foodservice and related products from third-party suppliers. For the most part, we do not have long-term contracts with our suppliers committing them to provide products to us; however, we believe the number of long-term contracts will increase as we progress with our category management initiative. Although our purchasing volume can provide benefits when dealing with suppliers, suppliers may not provide the foodservice products and supplies needed by us in the quantities and at the prices requested. We are also subject to delays caused by interruption in production and increases in product costs based on conditions outside of our control. These conditions include work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, short-term weather conditions or more prolonged climate change, crop and other agricultural conditions, water shortages, transportation interruptions, unavailability of fuel or increases in fuel costs, product recalls, competitive demands and natural disasters or other catastrophic events (including, but not limited to food-borne illnesses). Further, increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain or impact demand for our products. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. Our inability to obtain adequate supplies of foodservice and related products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

Adverse publicity about us or lack of confidence in our products could negatively impact our reputation and reduce earnings.

Maintaining a good reputation and public confidence in the safety of the products we distribute is critical to our business, particularly to selling Sysco Brand products. The Sysco brand name, trademarks and logos and our reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Anything that damages our reputation or the public's confidence in our products, whether or not justified, including adverse publicity about the quality, safety, sustainability or integrity of our products or relating to activities by our operations, employees, suppliers or agents could tarnish our reputation and reduce the value of our brand, and could adversely affect our revenues and profits.

Reports, whether true or not, of food-borne illnesses (such as e-coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis, salmonella, listeria or swine flu) and injuries caused by food tampering could also severely injure our reputation or negatively impact the public's confidence in our products. If patrons of our restaurant customers become ill from food-borne illnesses, our customers could be forced to temporarily close restaurant locations and our sales and profitability would be correspondingly decreased. In addition, instances of food-borne illnesses or food tampering or other health concerns (even those unrelated to the use of Sysco products), or public concern regarding the safety of our products, can result in negative publicity about the food service distribution industry and cause our sales and profitability to decrease dramatically.

Damage to our reputation and loss of brand equity could reduce demand for our products and services. This reduction in demand, together with the dedication of time and expense necessary to defend our reputation, will have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand. Our business prospects, financial condition and results of operations could be adversely affected if our public image or reputation were to be tarnished by negative publicity including dissemination via print, broadcast or social media, or other forms of Internet-based communications. Adverse publicity about regulatory or legal action against us could damage our reputation and image, undermine our customers' confidence and reduce short-term or long-term demand for our products and services, even if the regulatory or legal action is unfounded or not material to our operations. Any of these events could have a material negative impact on our results of operations and financial condition.

If sales to our locally-managed customers grow at a lower rate than sales to our corporate-managed customers, our operating margins may decline and our corporate-managed customers will increase their proportion of our total sales, thus subjecting us to greater risk if we lose one or more of these customers and possibly enabling these larger customers to exert greater pressure on us to reduce our prices and/or expand our services.

Our sales to corporate-managed customers have generally grown at a faster rate than our sales to locally-managed locations. Gross margin from our corporate-managed customers is generally lower than that of our locally-managed customers because we typically sell higher volumes of products to these customers and provide a relatively lower level of value-added services than we do to locally-managed customers. If sales to our locally-managed customers do not grow at the same or a greater rate as sales to our corporate-managed customers, our operating margins may decline.

Moreover, if sales to our corporate-managed customers increase at a faster pace of growth than sales to our locally-managed customers, we will become more dependent on corporate-managed customers as they begin to represent a greater proportion of our total sales. Additionally, the loss of sales to the larger of these corporate-managed customers could have a material negative impact on our results of operations and financial condition. Additionally, as a result of our greater dependence on these customers, we could be pressured by them to lower our prices and/or offer expanded or additional services at the same prices. In that event, we would need to achieve additional cost savings to offset these price reductions and/or cost increases or our gross margins and profitability could be materially adversely affected. We may be unable to change our cost structure and pricing practices rapidly enough to successfully compete in such an environment.

Expanding into international markets and complementary lines of business presents unique challenges, and our expansion efforts with respect to international operations and complementary lines of business may not be successful.

In addition to our domestic activities, an element of our strategy includes the possibility of further expansion of operations into international markets and the establishment of international procurement organizations. Our ability to successfully operate in international markets may be adversely affected by local laws and customs, legal and regulatory constraints, including compliance with the Foreign Corrupt Practices Act, political and economic conditions and currency regulations of the countries or regions in which we currently operate or intend to operate in the future. Risks inherent in our existing and future international operations also include, among others, the costs and difficulties of managing international operations, difficulties in identifying and gaining access to local suppliers, suffering possible adverse tax consequences, maintaining product quality and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations thereof may have an adverse impact on our future costs or on future sales and cash flows from our international operations.

Another element of our strategy includes the possibility of expansion into businesses that are closely related or complementary to, but not currently part of, our core foodservice distribution business. Our ability to successfully operate in these complementary business markets may be adversely affected by legal and regulatory constraints, including compliance with regulatory programs to which we become subject. Risks inherent in branching out into such complementary markets also include the costs and difficulties of managing operations outside of our core

business, which may require additional skills and competencies, as well as difficulties in identifying and gaining access to suppliers or customers in new markets.

If we fail to comply with requirements imposed by applicable law or other governmental regulations, we could become subject to lawsuits, investigations and other liabilities and restrictions on our operations that could significantly and adversely affect our business.

We are subject to governmental regulation at the federal, state, international, national, provincial and local levels in many areas of our business, such as food safety and sanitation, minimum wage, overtime, wage payment, wage and hour and employment discrimination, immigration, human health and safety, and due to the services we provide in connection with governmentally funded entitlement programs. From time to time, both federal and state governmental agencies have conducted audits of our billing practices as part of investigations of providers of services under governmental contracts, or otherwise. We also receive requests for information from governmental agencies in connection with these audits. While we attempt to comply with all applicable laws and regulations, we cannot represent that we are in full compliance with all applicable laws and regulations or interpretations of these laws and regulations at all times or that we will be able to comply with any future laws, regulations or interpretations of these laws and regulations.

If we fail to comply with applicable laws and regulations or encounter disagreements with respect to our contracts subject to governmental regulations, including those referred to above, we may be subject to investigations, criminal sanctions or civil remedies, including fines, injunctions, prohibitions on exporting, seizures or debarments from contracting with the government. The cost of compliance or the consequences of non-compliance, including debarments, could have a material adverse effect on our business and results of operations. In addition, governmental units may make changes in the regulatory frameworks within which we operate that may require either the corporation as a whole or individual businesses to incur substantial increases in costs in order to comply with such laws and regulations.

Product liability claims could materially impact our business.

We, like any other seller of food, face the risk of exposure to product liability claims in the event that the use of products sold by Sysco causes injury or illness. We cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. With respect to product liability claims, we believe we have sufficient primary or excess umbrella liability insurance. However, this insurance may not continue to be available at a reasonable cost or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying our products, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If Sysco does not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially reduce our net earnings and earnings per share.

We must finance and integrate acquired businesses effectively.

Historically, a portion of our growth has come through acquisitions. If we are unable to integrate acquired businesses successfully or realize anticipated economic, operational and other benefits and synergies in a timely manner, our earnings per share may be materially adversely impacted. Integration of an acquired business may be more difficult when we acquire a business in a market in which we have limited expertise, or with a culture different from Sysco's. A significant expansion of our business and operations, in terms of geography or magnitude, could strain our administrative and operational resources. Significant acquisitions may also require the issuance of material additional amounts of debt or equity, which could materially alter our debt-to-equity ratio, increase our interest expense and decrease earnings per share, and make it difficult for us to obtain favorable financing for other acquisitions or capital investments. See "--The integration of the businesses of Sysco and US Foods may be more difficult, costly or time consuming than expected, and the merger may not result in any or all of the anticipated benefits, including cost synergies."

We need access to borrowed funds in order to grow, and any default by us under our indebtedness could have a material adverse impact on cash flow and liquidity.

A substantial part of our growth historically has been the result of acquisitions and capital expansion. We anticipate additional acquisitions and capital expansion in the future. As a result, our inability to finance acquisitions and capital expenditures through borrowed funds could restrict our ability to expand. Moreover, any default under the documents governing our indebtedness could have a significant adverse effect on our cash flows, as well as the market value of our common stock. See "--Consummation of the merger will require Sysco to incur significant additional indebtedness, which could adversely impact our financial condition and may hinder our ability to obtain additional financing and pursue other business and investment opportunities."

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As of June 28, 2014, we had approximately \$3 billion of total indebtedness. We have a Board-approved commercial paper program allowing us to issue short-term unsecured notes in an aggregate amount not to exceed \$1.3 billion; a revolving credit facility supporting our U.S. and Canadian commercial paper programs in the amount of \$1.5 billion set to expire on December 29, 2018; certain uncommitted bank lines of credit providing for unsecured borrowings for working capital of up to \$95.0 million; and a €100.0 million (Euro) multicurrency revolving credit facility for use by our Irish subsidiary set to expire September 24, 2014, which is subject to extension. Our indebtedness may further increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures and potential acquisitions or joint ventures. Our increased level of indebtedness and the ultimate cost of such indebtedness could have a negative impact on our liquidity, cost of capital and financial results. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and any alternative financing measures available may not be successful and may not permit us to meet our scheduled debt service obligations. See “--Consummation of the merger will require Sysco to incur significant additional indebtedness, which could adversely impact our financial condition and may hinder our ability to obtain additional financing and pursue other business and investment opportunities.”

Our liquidity can be negatively impacted by payments required to appeal tax assessments with certain tax jurisdictions.

Certain tax jurisdictions require partial to full payment of audit assessments or the posting of letters of credit in order to proceed to the appeals process. Sysco has posted approximately \$32.5 million in letters of credit in order to appeal the Canadian Revenue Agency assessments of transfer pricing adjustments relating to our cross border procurement activities through our former purchasing cooperative on our 2004 and 2005 fiscal years. If assessed on later years currently under examination using these same positions, we could have to pay cash or post additional letters of credit of as much as \$129.0 million, in order to appeal these further assessments. If significant further payments are required, the company's financial condition or cash flows could be adversely affected.

We rely on technology in our business and any technology disruption or delay in implementing new technology could have a material negative impact on our business.

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology network. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks, to make purchases, manage our warehouses and to monitor and manage our business on a day-to-day basis. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs and lower profits.

Furthermore, process changes will be required as we continue to use our existing warehousing, delivery, and payroll systems to support operations as we implement the ERP system. While Sysco has invested and continues to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruption that could result in adverse effects on operations and profits.

A cybersecurity incident and other technology disruptions could negatively impact our business and our relationships with customers.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees, suppliers, business partners and our customers. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' and suppliers personal information, private information about employees, and financial and strategic information about the company and its business partners. Further, as the company pursues its strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, the company is also expanding and improving its information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage.

We may be required to pay material amounts under multiemployer defined benefit pension plans.

We contribute to several multiemployer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees. Approximately 10% of our current employees are participants in such multiemployer plans. In fiscal 2014, our total contributions to these plans were approximately

\$76 million, which included payments for withdrawal liabilities of \$41 million. The costs of providing benefits through such plans have increased in recent years. The amount of any increase or decrease in our required contributions to these multiemployer plans will depend upon many factors, including the outcome of collective bargaining, actions taken by trustees who manage the plans, government regulations, the actual return on assets held in the plans and the potential payment of a withdrawal liability if we choose to exit. Based upon the information available to us from plan administrators, we believe that several of these multiemployer plans are underfunded. The unfunded liabilities of these plans may result in increased future payments by us and the other participating employers. Underfunded multiemployer pension plans may impose a surcharge requiring additional pension contributions. Our risk of such increased payments may be greater if any of the participating employers in these underfunded plans withdraws from the plan due to insolvency and is not able to contribute an amount sufficient to fund the unfunded liabilities associated with its participants in the plan. Based on the latest information available from plan administrators, we estimate our share of the aggregate withdrawal liability on the multiemployer plans in which we participate could have been as much as \$245 million as of June 28, 2014. A significant increase to funding requirements could adversely affect the company's financial condition, results of operations or cash flows.

Our funding requirements for our company-sponsored qualified pension plan may increase should financial markets experience future declines.

At the end of fiscal 2012, we decided to freeze future benefit accruals under the company-sponsored qualified pension plan (Retirement Plan) as of December 31, 2012 for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees were eligible for additional contributions under an enhanced, defined contribution plan. While these actions will serve to limit future growth in our pension liabilities, we had a sizable pension obligation of \$3.2 billion as of June 28, 2014; therefore, financial market factors could impact our funding requirements. Although recent pension funding relief legislation has served to defer some required funding, additional contributions may be required if our plan is not fully funded when the provisions that provided the relief are phased out. See Note 14, "Company-Sponsored Employee Benefit Plans" to the Consolidated Financial Statements in Item 8 for a discussion of the funded status of the Retirement Plan.

The amount of our annual contribution to the Retirement Plan is dependent upon, among other things, the returns on the Retirement Plan's assets and discount rates used to calculate the plan's liability. Our Retirement Plan holds investments in both equity and fixed income securities. Fluctuations in asset values can cause the amount of our anticipated future contributions to the plan to increase. The projected liability of the Retirement Plan will be impacted by the fluctuations of interest rates on high quality bonds in the public markets as these are inputs in determining our minimum funding requirements. Specifically, decreases in these interest rates may have an adverse impact on our funding obligations. To the extent financial markets experience future declines similar to those experienced in fiscal 2008 through the beginning of fiscal 2010, and/or interest rates on high quality bonds in the public markets decline, our required contributions may increase for future years as our funded status decreases, which could have an adverse impact on our liquidity.

Failure to successfully renegotiate union contracts could result in work stoppages.

As of June 28, 2014, approximately 8,800 employees at 52 operating companies were members of 59 different local unions associated with the International Brotherhood of Teamsters and other labor organizations. In fiscal 2015, 13 agreements covering approximately 1,900 employees have expired or will expire. Since June 28, 2014, there have been no contract renegotiations. Failure of our operating companies to effectively renegotiate these contracts could result in work stoppages. Although our operating subsidiaries have not experienced any significant labor disputes or work stoppages to date, and we believe they have satisfactory relationships with their unions, a work stoppage due to failure of multiple operating subsidiaries to renegotiate union contracts could have a material adverse effect on us.

A shortage of qualified labor could negatively impact our business and materially reduce earnings.

The future success of our operations, including the achievement of our strategic objectives, depends on our ability to identify, recruit, develop and retain qualified and talented individuals, and any shortage of qualified labor could significantly affect our business. Our employee recruitment, development and retention efforts may not be successful and there may be a shortage of qualified individuals in future periods. Any such shortage would decrease Sysco's ability to effectively serve our customers and achieve our strategic objectives. Such a shortage would also likely lead to higher wages for employees and a corresponding reduction in our net earnings.

Our authorized preferred stock provides anti-takeover benefits that may not be viewed as beneficial to stockholders.

Under our Restated Certificate of Incorporation, Sysco's Board of Directors is authorized to issue up to 1,500,000 shares of preferred stock without stockholder approval. Issuance of these shares could make it more difficult for anyone to acquire Sysco without approval of the Board of Directors, depending on the rights and preferences of the stock issued. In addition, if anyone attempts to acquire Sysco without approval of the Board of Directors of Sysco, the existence of this undesignated preferred stock could allow the Board of Directors to adopt a shareholder rights plan without obtaining stockholder approval, which could result in substantial dilution to a potential acquirer. As a result, hostile takeover attempts that might result in an acquisition of Sysco, that could otherwise have

been financially beneficial to our stockholders, could be deterred.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The table below shows the number of distribution facilities occupied by Sysco in each state, province or country and the aggregate square footage devoted to cold and dry storage as of June 28, 2014.

Location	Number of Facilities	Cold Storage (Square Feet in thousands)	Dry Storage (Square Feet in thousands)	Segment Served*
Alabama	2	184	130	BL
Alaska	1	41	28	BL
Arizona	2	129	107	BL, O
Arkansas	2	131	88	BL, O
California	17	1,386	1,254	BL, S, O
Colorado	4	274	213	BL, S, O
Connecticut	3	156	110	BL, O
District of Columbia	2	52	42	BL
Florida	14	1,166	887	BL, S, O
Georgia	5	267	417	BL, S, O
Idaho	3	95	92	BL
Illinois	6	409	408	BL, S, O
Indiana	1	100	109	BL
Iowa	1	93	95	BL
Kansas	1	177	171	BL
Kentucky	1	92	106	BL
Louisiana	1	134	113	BL
Maine	1	59	50	BL
Maryland	2	318	255	BL
Massachusetts	2	249	229	BL, S
Michigan	3	320	300	BL, S
Minnesota	3	233	195	BL
Mississippi	1	95	69	BL
Missouri	2	106	94	BL, S
Montana	1	120	121	BL
Nebraska	1	143	129	BL
Nevada	3	199	154	BL, O
New Jersey	4	140	453	BL, O
New Mexico	1	120	108	BL
New York	4	417	361	BL, O
North Carolina	6	332	303	BL, S, O
North Dakota	1	46	59	BL
Ohio	6	407	423	BL, S, O

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Oklahoma	3	176	156	BL, S, O
Oregon	3	177	154	BL, S
Pennsylvania	5	542	405	BL, S
Rhode Island	1	2	-	BL
South Carolina	1	191	98	BL
Tennessee	5	406	426	BL, O
Texas	18	1,131	1,235	BL, S, O
Utah	1	161	107	BL
Virginia	3	627	418	BL
Washington	1	134	92	BL
Wisconsin	3	287	299	BL, O
Bahamas	1	90	23	BL
Alberta, Canada	3	206	199	BL
British Columbia, Canada	8	289	271	BL, O
Manitoba, Canada	1	78	74	BL
New Brunswick, Canada	2	85	41	BL
Newfoundland, Canada	1	33	41	BL
Nova Scotia, Canada	1	45	50	BL
Ontario, Canada	10	549	442	BL, O
Quebec, Canada	7	152	239	BL
Saskatchewan, Canada	1	40	54	BL

Location	Number of Facilities	Cold Storage (Square Feet in thousands)	Dry Storage (Square Feet in thousands)	Segment Served*
Ireland	6	109	68	BL
Northern Ireland	1	2	8	BL
Puerto Rico	1	8	-	O
Total	194	13,710	12,573	

* Segments served include Broadline (BL), SYGMA (S) and Other (O).

We own approximately 21,717,000 square feet of our distribution facilities (or 82.6% of the total square feet), and the remainder is occupied under leases expiring at various dates from fiscal 2015 to fiscal 2032, exclusive of renewal options.

We own our approximately 625,000 square foot headquarters office complex in Houston, Texas. In addition, we own our approximately 669,000 square foot shared services complex in Cypress, Texas.

We are currently constructing expansions, replacement or fold-out facilities for our distribution facilities in Phoenix, Arizona; Jacksonville, Florida; and Dublin, Ireland. These operating companies, in the aggregate, accounted for approximately 2% of fiscal 2014 sales.

As of June 28, 2014, our fleet of approximately 9,400 delivery vehicles consisted of tractor and trailer combinations, vans and panel trucks, most of which are either wholly or partially refrigerated for the transportation of frozen or perishable foods. We own approximately 94% of these vehicles and lease the remainder.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

The principal market for Sysco's common stock (SYY) is the New York Stock Exchange. The table below sets forth the high and low sales prices per share for our common stock as reported on the New York Stock Exchange Composite Tape and the cash dividends declared for the periods indicated.

	Common Stock Prices		Dividends
	High	Low	Declared Per Share
Fiscal 2013:			
First Quarter	\$ 31.41	\$ 28.23	\$ 0.27
Second Quarter	32.40	29.75	0.28
Third Quarter	35.62	30.55	0.28
Fourth Quarter	35.40	33.07	0.28
Fiscal 2014:			
First Quarter	\$ 36.05	\$ 31.37	\$ 0.28
Second Quarter	43.40	31.13	0.29
Third Quarter	37.08	34.07	0.29
Fourth Quarter	37.92	35.31	0.29

The number of record owners of Sysco's common stock as of August 13, 2014 was 11,575.

We made the following share repurchases during the fourth quarter of fiscal 2014:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 March 30 – April 26	-	\$ -	-	11,655,197
Month #2 April 27 – May 24	2,357	37.19	-	11,655,197
Month #3 May 25 – June 28	-	-	-	11,655,197
Total	2,357	\$ 37.19	-	11,655,197

(1) The shares purchased in Month #2 represented shares tendered by individuals in connection with stock option exercises.

In August 2013, our Board of Directors approved the repurchase of up to 20,000,000 shares for an aggregate purchase price not to exceed \$720 million. The authorization expires on August 23, 2015. Pursuant to the repurchase program, shares may be acquired in the open market or in privately negotiated transactions at the company's discretion, subject to market conditions and other factors.

The Board of Directors has authorized us to enter into agreements from time to time to extend our ongoing repurchase program to include repurchases during company announced "blackout periods" of such securities in compliance with Rule 10b5-1 promulgated under the Securities Exchange Act of 1934 (Exchange Act).

Stock Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, except to the extent that Sysco specifically incorporates such information by reference into such filing.

The following stock performance graph compares the performance of Sysco's Common Stock to the S&P 500 Index and to the S&P 500 Food/Staple Retail Index for Sysco's last five fiscal years.

The graph assumes that the value of the investment in our Common Stock, the S&P 500 Index, and the S&P 500 Food/Staple Retail Index was \$100 on the last trading day of fiscal 2009, and that all dividends were reinvested. Performance data for Sysco, the S&P 500 Index and the S&P 500 Food/Staple Retail Index is provided as of the last trading day of each of our last five fiscal years.

	6/27/09	7/3/10	7/2/11	6/30/12	6/29/13	6/28/14
Sysco Corporation	\$100	\$129	\$148	\$145	\$172	\$197
S&P 500	100	114	152	158	190	237
S&P 500 Food/Staple Retail Index	100	101	131	151	183	221

Item 6. Selected Financial Data

	Fiscal Year										
	2010										
	2014		2013		2012		2011		(53 Weeks)		
	(In thousands except for per share data)										
Sales	\$	46,516,712	\$	44,411,233	\$	42,380,939	\$	39,323,489	\$	37,243,495	
Operating income		1,587,122		1,658,478		1,890,632		1,931,502		1,975,868	
Earnings before income taxes		1,475,624		1,547,455		1,784,002		1,827,454		1,849,589	
Income taxes		544,091		555,028		662,417		675,424		669,606	
Net earnings	\$	931,533	\$	992,427	\$	1,121,585	\$	1,152,030	\$	1,179,983	
Net earnings:											
Basic earnings per share	\$	1.59	\$	1.68	\$	1.91	\$	1.96	\$	1.99	
Diluted earnings per share		1.58		1.67		1.90		1.96		1.99	
Dividends declared per share	\$	1.15	\$	1.11	\$	1.07	\$	1.03	\$	0.99	
Total assets	\$	13,167,950	\$	12,678,208	\$	12,137,207	\$	11,427,190	\$	10,336,436	
Capital expenditures		523,206		511,862		784,501		636,442		594,604	
Current maturities of long-term debt	\$	304,777	\$	207,301	\$	254,650	\$	207,031	\$	7,970	
Long-term debt		2,384,167		2,639,986		2,763,688		2,279,517		2,472,662	
Total long-term debt		2,688,944		2,847,287		3,018,338		2,486,548		2,480,632	
Shareholders' equity		5,266,695		5,191,810		4,685,040		4,705,242		3,827,526	
Total capitalization	\$	7,955,639	\$	8,039,097	\$	7,703,378	\$	7,191,790	\$	6,308,158	
Ratio of long-term debt to capitalization		33.8	%	35.4	%	39.2	%	34.6	%	39.3	%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends and results and provides meaningful supplemental information to both management and investors that is indicative of the performance of the company's underlying operations and facilitates comparison on a year-over-year basis. Other than free cash flow, any non-GAAP financial measure will be denoted as an adjusted measure and exclude the impact from executive retirement plans restructuring, multiemployer pension withdrawals, severance charges, merger and integration costs associated with our pending US Foods, Inc. (US Foods) merger, change in estimate for self-insurance costs, charges from a liability for a settlement, facility closure charges, amortization of US Foods financing costs and an acquisition related charge specific to fiscal 2013, collectively defined as (Certain Items). The comparison of our fiscal 2013 and fiscal 2012 periods also excludes the impact of our Business Transformation Project. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations."

Due to the inherent uncertainties concerning the impact of the pending US Foods acquisition (see discussion in Risk Factors in Part 1, Item 1A.), it is impracticable for us to provide projections that fully anticipate all possible impacts of the acquisition. For that reason, forward-looking disclosures in this MD&A and elsewhere describe anticipated future trends and results of only our current operations, excluding any potential impact from the US Foods acquisition unless specifically noted.

Overview

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our operations are primarily located throughout the United States (U.S.), Bahamas, Canada, Republic of Ireland and Northern Ireland and include broadline companies (which include our custom-cut meat operations), SYGMA (our chain restaurant distribution subsidiary), specialty produce companies, hotel supply operations, a company that distributes specialty imported products, a company that distributes to international customers and our Sysco Ventures platform, our suite of technology solutions that help support the business needs of our customers.

We consider our primary market to be the foodservice market in the U.S., Canada and Ireland and estimate that we serve about 17.4% of this approximately \$255 billion annual market based on a measurement as of the end of calendar 2013. We use industry data obtained from various sources including Technomic, Inc., the Canadian Restaurant and Foodservices Association and the Irish Food Board to calculate this measurement. Industry sources adjust measurements of the market size periodically to align with governmental census data. As a result, our measurement used for calendar 2012 was adjusted to 17.1%. According to industry sources, the foodservice, or food-away-from-home, market represents approximately 48% of the total dollars spent on food purchases made at the consumer level in the U.S. as of the end of calendar 2013.

Industry sources estimate the total foodservice market in the U.S. experienced a real sales increase of approximately 1.1% in calendar year 2013 and 1.2% in calendar year 2012. Real sales changes do not include the impact of inflation or deflation.

Highlights

The foodservice industry remained under pressure in fiscal 2014. While the economy continues to slowly recover, the magnitude of recovery is modest and the outlook for certain fundamental drivers of the economy is mixed. This creates a challenging business environment for us and our customers; however, we continue to implement transformational change on a broad scale which is enhancing the products and services we provide our customers and helping us to operate more efficiently. Our sales and gross profits grew modestly, and our expense management performance was favorable overall despite cost pressures in our delivery operations. Our improvements largely resulted from our Business Transformation Project initiatives, which helped drive our North American Broadline cost per case lower than in fiscal 2013. The impact of Certain Items also contributed to lower operating income in fiscal 2014 as compared to fiscal 2013.

Comparison of results from fiscal 2014 to fiscal 2013:

- Sales increased 4.7%, or \$2.1 billion to \$46.5 billion.
- Operating income decreased 4.3%, or \$71.4 million, to \$1.6 billion.
- Adjusted operating income decreased 0.9%, or \$16.2 million, to \$1.7 billion.
- Net earnings decreased 6.1%, or \$60.9 million, to \$0.9 billion.
- Adjusted net earnings decreased 1.8%, or \$19.4 million, to \$1.0 billion.
- Basic earnings per share in fiscal 2014 was \$1.59, a 5.4% decrease from the comparable prior year period amount of \$1.68 per share. Diluted earnings per share in fiscal 2014 was \$1.58, a 5.4% decrease from the comparable prior year period amount of \$1.67 per share.
- Adjusted diluted earnings per share was \$1.76 in fiscal 2014, a 1.1% decrease from the comparable prior year amount of \$1.78 per share.

See “Non-GAAP Reconciliations” for an explanation of these non-GAAP financial measures.

In the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. This merger is currently pending a regulatory review process.

Trends and Strategy

Trends

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. Consumers continue to spend their disposable income in an increasingly disciplined manner. We believe these conditions have contributed to a slow rate of recovery in the foodservice market. While these trends can be cyclical in nature, greater consumer confidence will be required to reverse the trend. According to industry sources, real sales growth for the total foodservice market in the U.S. is expected to be modest over the long-term. We believe these industry trends reinforce the need for us to transform our business to reduce our overall cost structure and provide greater value to our customers. Our long-term sales growth expectation is 4% to 6% annually, which assumes a modest rate of inflation similar to historical levels.

Our gross margin performance has been influenced by multiple factors. The modest level of growth in the foodservice market has created additional competitive pricing pressures which is in turn negatively impacting gross profits. Sales to our locally-managed customers, including independent restaurant customers, have not grown at the same rate as sales to our corporate-managed customers. Gross margin from our corporate-managed customers is generally lower than other types of customers due to higher volumes sold to these customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of value added services we typically provide to this customer group. As a result, our gross margins have declined. The disparity in the growth rate between these customer types moderated in the last half of fiscal 2014 with locally-managed sales growth trending at similar rates as corporate-managed customers. Inflation can be a factor that contributes to gross margin pressure. Our inflation rates were relatively stable over the first three quarters of fiscal 2014, however it increased in the fourth quarter, all quarters being compared to the past year. Fourth quarter fiscal 2014 inflation was seen primarily in the meat, seafood and dairy categories which represent more than one-third of our annual sales. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can be difficult to pass on to our customers and inflation can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings.

We have experienced higher operating expenses this fiscal year as compared to fiscal 2013, stemming from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization, increased delivery costs and higher corporate expenses. These were partially offset by lower Business Transformation Project expenses and benefits from Business Transformation Project initiatives. We have experienced a decrease in pay-related expenses in the selling and information technology areas due to initiatives from our Business Transformation Project. The benefits in the selling and information technology areas have largely been realized and are not expected to recur in fiscal 2015. Other areas of pay-related expense have increased primarily from acquired companies and within delivery areas of our business a portion of which can be attributable to volume increases. Our retirement-related expenses consist primarily of costs from our company-sponsored qualified pension plan (Retirement Plan), our Supplemental Executive Retirement Plan (SERP) and our defined contribution plan. Our Retirement Plan was substantially frozen and the SERP was completely frozen in fiscal 2013, and our defined contribution plan was enhanced with greater benefits. The net impact of these actions is a reduction in retirement-related costs for fiscal 2014 as compared to fiscal 2013. The benefits in the retirement-related expense have largely been realized and the amount of cost decrease is not expected to recur at the same magnitude in fiscal 2015 as in fiscal 2014. Corporate office expenses have risen in fiscal 2014 and will continue to rise in fiscal 2015 as we expand our corporate capabilities including a new revenue management function, organizational changes that drive greater functional support in our broadline operations and additional investments in technology. We have incurred additional costs in connection with the proposed merger with US Foods announced in the second quarter of fiscal 2014 primarily from integration planning and due diligence costs. We anticipate incurring additional costs as we begin planning for integration of the two companies as well as other financing costs incurred in connection with the proposed merger. The proposed merger is undergoing regulatory review by the Federal Trade Commission and we estimate the merger will close by the end of the third quarter or in the fourth quarter of calendar 2014.

Strategy

We are focused on optimizing our core broadline business in the U.S., Bahamas, Canada and Ireland, while continuing to explore appropriate opportunities to profitably grow our market share and create shareholder value by expanding beyond our core business. Day-to-day, our business decisions are driven by our mission to market and deliver great products to our customers with exceptional service, with the aspirational vision of becoming each of our customers' most valued and trusted business partner. We have identified five components of our strategy to help us achieve our mission and vision:

- Profoundly enrich the experience of doing business with Sysco: Our primary focus is to help our customers succeed. We believe that by building on our current competitive advantages, we will be able to further differentiate our offering to customers. Our competitive advantages include our sales force of over 7,000 marketing associates; our diversified product base, which includes quality-assured Sysco brand products; the suite of services we provide to our customers such as business reviews and menu analysis; and our multi-regional presence in the U.S. and Canada. In addition, we have a portfolio of businesses spanning broadline, specialty meat, chain restaurant distribution, specialty produce, hotel amenities, specialty import and export which serves our customers' needs across a wide array of business segments. Through our Sysco Ventures platform, we are developing a suite of technology solutions that help support the administrative needs of our customers. We believe this strategy of enriching the experience of doing business with Sysco will increase customer retention and profitably accelerate sales growth with both existing and new customers.
- Continuously improve productivity in all areas of our business: Our multi-year Business Transformation Project is designed to improve productivity and reduce costs. An integrated software system is included in this project and will support a majority of our business processes to further streamline our operations and reduce costs. These systems are commonly referred to as Enterprise Resource Planning (ERP) systems. We view the technology as an important enabler of this project; however the larger outcome of this project will be from transformed processes that standardize portions of our operations. This includes a shared business service center to centrally manage certain back-office functions that are currently performed at a majority of our operating companies. This project includes other components to lower our cost structure through improved productivity without impacting our service to our customers. We continue to optimize warehouse and delivery activities across the organization to achieve a more efficient delivery of products to our customers and we seek to improve sales productivity and lower general and administrative costs. We also have a product cost reduction and category management initiative to use market data and customer insights to make changes to product pricing and product assortment.
- Expand our portfolio of products and services by initiating a customer-centric innovation program: We continually explore opportunities to provide new and improved products, technologies and services to our customers.
- Explore, assess and pursue new businesses and markets: This strategy is focused on identifying opportunities to expand the core business through growth in new international markets and in adjacent areas that complement our core foodservice distribution business. As a part of our ongoing strategic analysis, we regularly evaluate business opportunities, including potential acquisitions, joint ventures and sales of assets and businesses.
- Develop and effectively integrate a comprehensive, enterprise-wide talent management process: Our ability to drive results and grow our business is directly linked to having the best talent in the industry. We are committed to the continued enhancement of our talent management programs in terms of how we recruit, select, train and develop our associates throughout Sysco, as well as succession planning. Our ultimate objective is to provide our associates with outstanding opportunities for professional growth and career development.

The five components of our strategy discussed above are designed to drive sustainable profitable growth, increase asset optimization and free cash flow and increase operating margins. Consistent with these three objectives, in the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. US Foods is a leading foodservice distributor in the U.S. that markets and distributes fresh, frozen and dry food and non-food products to more than 200,000 foodservice customers including independently owned single location restaurants, regional and

national chain restaurants, healthcare and educational institutions, hotels and motels, government and military organizations and retail locations. Following the completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas. At closing, Sysco is expected to have annual sales of approximately \$65 billion and with successful integration, we believe at least \$600 million in estimated annual synergies can be obtained in the combined company over a three to four year time period. Expenses to achieve synergies are estimated to be \$700 million to \$800 million to occur over a three year time frame once the acquisition has closed. We anticipate some level of capital expenditures primarily for internal use software and other computer equipment; however, amounts have not been estimated at this time.

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately \$3.5 billion for the equity of US Foods, comprised of \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately \$4.7 billion as of September 28, 2013, bringing the total enterprise value to \$8.2 billion at the time of the merger announcement. As of August 13, 2014, the merger consideration is estimated as follows: approximately \$3.7 billion for the equity of US Foods, comprised of \$3.2 billion of Sysco common stock valued using the seven day average through August 13, 2014 and \$500 million of cash. US Foods' net debt to be assumed or refinanced was approximately \$4.8 billion as of June 28, 2014, bringing the total enterprise value to \$8.5 billion as of August 13, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

We have secured a fully committed bridge financing and expect to issue longer-term financing prior to closing. After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13%, of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. This merger is currently pending a regulatory review process by the Federal Trade Commission. We expect the transaction to close by the end of the third quarter or in the fourth quarter of calendar 2014. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay \$300 million to the owners of US Foods if the merger were cancelled, which would be recognized as an expense.

Business Transformation Project

Our multi-year Business Transformation Project consists of:

- the design and deployment of an ERP system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- initiatives to lower our operating cost structure; and
- initiatives to lower our product cost including a category management initiative to use market data and customer insights to lower product pricing and enhance our product assortment to drive sales growth.

With respect to our ERP system, we successfully installed a major scheduled update to the system and have deployed the system to twelve locations as of the end of July 2014. In fiscal 2015, we will implement a software version upgrade, finalize information technology-related US Foods merger integration planning and sequencing decisions and enhance the scalability of our shared service center's processes to prepare for more conversions in the future. Our goal with integration planning is to sequence the decisions of our ERP implementation to help us achieve the most synergies in a timely manner.

We are seeking to lower our operating cost structure through various initiatives. These include routing optimization to reduce routes and miles driven, while improving on-time deliveries. This initiative is expected to be complete by the end of fiscal 2015. We made substantial progress on our fleet and equipment optimization initiative aimed at reducing costs and optimizing our capital spend. We expect to complete the rationalization of our fleet by the end of fiscal 2015. Driver and warehouse pay structures are being enhanced including tools to more effectively manage labor costs. We are also piloting a program to increase the amount of recycled material in our operations. We expect to roll out this program across the country by the end of the second quarter of fiscal 2015, which should also reduce costs.

We also seek to lower our product costs through various initiatives such as our category management initiative. This initiative is designed to lower our total product costs and to align our product assortment with customer demand. We are using market data and customer insights to make changes to our product assortment while building strategic partnerships with our suppliers to grow our sales and our suppliers' sales. We believe there are opportunities to more effectively provide the products that our customers want, commit to greater volumes with our suppliers and create mutual benefits for all parties. We believe that procuring greater quantities with select vendors will result in reduced prices for our product purchases. In fiscal 2014, we launched several product categories, developed and implemented

field-ready sales tools and enhanced customer support and improved communication and coordination with the field. By the end of fiscal year 2015, we expect to have launched all of the categories in the scope of this initiative. We continue to believe this initiative will provide benefits to our customers and savings for us over the next few years.

The following tables outline our Business Transformation Project expenditures, that are attributable to our ERP system implementation and shared service support center, for the periods presented:

	2014	2013	Change in Dollars
	(In millions)		
Operating expense	\$ 277.0	\$ 330.5	\$ (53.5)
Capital expenditure	33.4	20.0	13.4
Amortization	(87.5)	(76.8)	(10.7)
Cash outlay	\$ 222.9	\$ 273.7	\$ (50.8)

	2013	2012	Change in Dollars
	(In millions)		
Operating expense	\$ 330.5	\$ 193.1	\$ 137.4
Capital expenditure	20.0	146.2	(126.2)
Amortization	(76.8)	(17.1)	(59.7)
Cash outlay	\$ 273.7	\$ 322.2	\$ (48.5)

The decrease in expenses in fiscal 2014 was due to lower employee costs that were attributed to our Business Transformation Project due to a change in allocation for employees that are not dedicated full time to the project. Only full time employee costs are included in fiscal 2014, while fiscal 2013 included all employee costs. Additional contributors to the decrease in fiscal 2014 include an increased level of capitalization on amounts spent for system improvements and reduced level of spend with consultants in fiscal 2014. The increase in expenses in 2013 was largely attributable to deployment costs and software amortization, which began in the first quarter of fiscal 2013 and totaled \$76.8 million. Our cash outlay for our Business Transformation Project, which excludes non-cash expenses such as software amortization, has decreased in fiscal 2014 and fiscal 2013 primarily due to lower levels of spend on internal labor and consultants.

Our goal for our Business Transformation Project is to generate approximately \$550 million to \$650 million in annual benefits to be achieved by fiscal 2015. In fiscal 2014, we exceeded our benefit goals and believe we will exceed our goals again in fiscal 2015.

Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

	2014	2013	2012
Sales	100.0 %	100.0 %	100.0 %
Cost of sales	82.4	82.0	81.6
Gross profit	17.6	18.0	18.4
Operating expenses	14.2	14.3	13.9
Operating income	3.4	3.7	4.5
Interest expense	0.2	0.3	0.3
Other expense (income), net	(0.0)	(0.0)	(0.0)
Earnings before income taxes	3.2	3.4	4.2
Income taxes	1.2	1.2	1.6
Net earnings	2.0 %	2.2 %	2.6 %

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the prior year:

	2014	2013
Sales	4.7 %	4.8 %
Cost of sales	5.3	5.2
Gross profit	2.3	2.8

Operating expenses	4.0	7.6
Operating income	(4.3)	(12.3)
Interest expense	(3.7)	13.3
Other expense (income), net (1)	(29.9)	158.2
Earnings before income taxes	(4.6)	(13.3)
Income taxes	(2.0)	(16.2)
Net earnings	(6.1) %	(11.5) %
Basic earnings per share	(5.4) %	(12.0) %
Diluted earnings per share	(5.4)	(12.1)
Average shares outstanding	(0.6)	0.3
Diluted shares outstanding	(0.4)	0.6

(1) Other expense (income), net was income of \$12.2 million in fiscal 2014, \$17.5 million in fiscal 2013 and \$6.8 million in fiscal 2012.

Sales

Sales for fiscal 2014 were 4.7% higher than fiscal 2013. Sales for fiscal 2014 increased as a result of product cost inflation and the resulting increase in selling prices, case volume growth, and sales from acquisitions that occurred within the last 12 months. Our sales growth in fiscal 2014 was greater with our corporate-managed customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer growth has been negatively influenced by market conditions including lower

consumer spend. The disparity in the growth rate between these customer types moderated in the last half of fiscal 2014, with locally-managed sales growth trending at similar rates as corporate-managed customers. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.1% during fiscal 2014, driven mainly by inflation in the meat, seafood and dairy categories. Case volumes including acquisitions within the last 12 months improved 3.4% in fiscal 2014. Case volumes excluding acquisitions within the last 12 months improved 2.2% in fiscal 2014. Our case volumes represent our results from our Broadline and SYGMA segments combined. Sales from acquisitions within the last 12 months favorably impacted sales by 1.4% in fiscal 2014. The changes in the exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.7% in fiscal 2014.

Sales for fiscal 2013 were 4.8% higher than fiscal 2012. Sales for fiscal 2013 increased as a result of product cost inflation and the resulting increase in selling prices, sales from acquisitions that occurred within the last 12 months and case volume growth. Our sales growth in fiscal 2013 was greater with our corporate-managed customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer sales growth was negatively influenced by lower consumer sentiment. Case volumes excluding acquisitions within the last 12 months improved 1.3% in fiscal 2013. Our case volumes represent our results from our Broadline and SYGMA segments only. Sales from acquisitions within the last 12 months favorably impacted sales by 1.5% for fiscal 2013. Case volumes including acquisitions within the last 12 months improved approximately 2.6% in fiscal 2013. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.2% during fiscal 2013. The changes in the exchange rates used to translate our foreign sales into U.S. dollars did not have a significant impact on sales when compared to fiscal 2012.

Operating Income

Cost of sales primarily includes our product costs, net of vendor consideration, and includes in-bound freight. Operating expenses include the costs of facilities, product handling, delivery, selling and general and administrative activities. Fuel surcharges are reflected within sales and gross profit; fuel costs are reflected within operating expenses.

Fiscal 2014 vs. Fiscal 2013

The following table sets forth the change in the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the prior year:

		Change in	%
2014	2013	Dollars	Change

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	(Dollars in thousands)				
Gross profit	\$ 8,181,035	\$ 7,996,607	\$ 184,428	2.3	%
Operating expenses	6,593,913	6,338,129	255,784	4.0	
Operating income	\$ 1,587,122	\$ 1,658,478	\$ (71,356)	(4.3)	%
Gross profit	\$ 8,181,035	\$ 7,996,607	\$ 184,428	2.3	%
Adjusted operating expenses (Non-GAAP)	6,444,076	6,243,414	200,662	3.2	
Adjusted operating income (Non-GAAP)	\$ 1,736,959	\$ 1,753,193	\$ (16,234)	(0.9)	%

The decrease in operating income was impacted by an increase in \$55.1 million in operating expenses attributable to Certain Items. Operating income and adjusted operating income for fiscal 2014 were lower than fiscal 2013 primarily from a lower rate of growth in our gross profit, increased expenses from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization, increased delivery costs and higher corporate expenses. These were partially offset by lower Business Transformation Project expenses and benefits from Business Transformation Project initiatives. As a percentage of sales, we experienced favorable expense management due in part to benefits from our Business Transformation Project initiatives.

Gross profit dollars increased in fiscal 2014 as compared to fiscal 2013 primarily due to increased sales volumes. The first half of fiscal 2014 contained weaker gross profit growth of 1.2% as compared to the same period in fiscal 2013. Inflation and locally-managed customers case growth was lower in the first half of fiscal 2014. Inflation increased as did local-managed customers case growth in the second half of fiscal 2014. Gross profits grew at a greater rate of 3.4% in the second half of fiscal 2014 as compared to the same time period in fiscal 2013 as result of these factors and in part from our Business Transformation Project initiatives. Gross margin, which is gross profit as a percentage of sales, was 17.59% in fiscal 2014, a decline of 42 basis points from the gross margin of 18.01% in fiscal 2013. This decline in gross margin was partially the result of weak restaurant traffic and increased competition resulting from a slow-growth market. Increased sales to lower margin corporate-managed customers also contributed to the decline in fiscal 2014. These customers purchase higher volumes and therefore margins tend to be lower with this customer group than our locally-managed customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of value added services we typically provide to this customer group. The disparity in the growth rate between these customer types moderated in the last half of fiscal 2014 with locally-managed sales growth

trending at similar rates as corporate-managed customers. If sales from our locally-managed customers do not grow at the same rate as sales from these corporate-managed customers, our gross margins may continue to decline. Our inflation rates were relatively stable over the first three quarters of fiscal 2014, however it increased in the fourth quarter, all quarters being compared to the past year. Fourth quarter fiscal 2014 inflation was seen primarily in the meat, seafood and dairy categories which represent more than one-third of our annual sales. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can be difficult to pass on to our customers and inflation can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings.

Operating expenses for fiscal 2014 increased 4.0%, or \$255.8 million, over fiscal 2013. Adjusted operating expenses for fiscal 2014 increased 3.2%, or \$200.7 million, over fiscal 2013. These increases were primarily due to increased expenses from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization, increased delivery costs and higher corporate expenses. These were partially offset by lower Business Transformation Project expenses and benefits from Business Transformation Project initiatives. We believe favorable expense management, partially from our Business Transformation Project initiatives, helped to keep our operating expense increases from being greater. Sysco's operating expenses are impacted by certain charges and adjustments, which we refer to as Certain Items, and which resulted in an increase in operating expenses of \$55.1 million in fiscal 2014 as compared to fiscal 2013. More information on the rationale of the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations."

Operating Expenses Impacting Adjusted Operating Income

Our operating expenses increased in fiscal 2014 as compared to fiscal 2013 partially due to expenses from our acquired operations, expenses attributable to volume growth and increased delivery costs. Pay-related expenses represent a significant portion of our operating costs, contributed to the increase in each of these three categories of expenses and contributed to cost increases in our corporate expenses. Pay-related expenses, excluding labor costs associated with our Business Transformation Project, US Foods integration planning and retirement-related expenses, increased by \$74.4 million in fiscal 2014 over fiscal 2013. The increase was primarily due to costs from companies acquired in the last 12 months as well as increased delivery and warehouse compensation, partially attributable to case growth. Pay-related costs have also increased at our corporate office as certain employee costs attributed to our Business Transformation Project in fiscal 2013 are no longer attributed to the Business Transformation Project in fiscal 2014 due to a change in allocation methodology. In fiscal 2013, we allocated internal associates based upon estimates of the percentage of time they spent on the project. In fiscal 2014, only associates that are dedicated full time to the project are included in Business Transformation Project costs. These increases were partially offset by reduced sales compensation, information technology compensation and lower provisions for management incentive plans. Benefits from our Business Transformation Project initiatives have helped in lowering the rate of growth in these expenses particularly in our sales area for fiscal 2014. During fiscal 2013, we streamlined our sales management organization and modified marketing associate compensation plans. Fiscal 2014 was also impacted by a reduction in pay in the information technology area, resulting from the restructuring of this department in fiscal 2013, which reduced headcount in this area.

Depreciation and amortization expense, excluding the increase related to our Business Transformation Project described below, increased by \$32.8 million in fiscal 2014 over fiscal 2013. The increase was primarily related to depreciation on assets that were not placed in service in fiscal 2013 that were in service in fiscal 2014.

Our retirement-related expenses consist primarily of costs from our Retirement Plan, SERP and our defined contribution plans. As a part of our Business Transformation Project initiatives, our Retirement Plan was substantially frozen and the SERP was completely frozen in fiscal 2013, and our defined contribution plans were enhanced with greater benefits. The net impact in fiscal 2014 of our retirement-related expenses as compared to fiscal 2013 was a decrease of \$86.8 million, consisting of a \$133.6 million decrease in our net company-sponsored pension costs and approximately \$6.2 million for other costs, partially offset by \$53.0 million increased costs from our defined contribution plans. The benefits in the retirement-related expense have largely been realized and the amount of cost decrease is not expected to recur at the same magnitude in fiscal 2015 as compared to fiscal 2014.

In addition to the increases in our corporate office expenses from pay-related expenses noted above, other sources of cost increases in fiscal 2014 as compared to fiscal 2013 were due to increasing the capabilities of various departments within our corporate office. A subset of our business technology costs has been attributable to our Business Transformation Project. Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$277.0 million in fiscal 2014 and \$330.5 million in fiscal 2013, representing a decrease of \$53.5 million. The decrease in fiscal 2014 resulted from a reduction in certain employee costs that were attributed to our Business Transformation Project in fiscal 2013 that are no longer attributed to the Business Transformation Project in fiscal 2014 due to a change in allocation methodology. In fiscal 2013, we allocated internal associates based upon estimates of the percentage of time they spent on the project. In fiscal 2014, only associates that are dedicated full time to the project are included in Business Transformation Project costs. Additional contributors to the decreases include an increased level of capitalization on amounts spent for system improvements to enhance stability and scalability and reduced level of spend with consultants as compared to the comparable period in fiscal 2013. The decrease in fiscal 2014 was partially offset by an increase in depreciation and amortization expense related to the Business Transformation Project of \$10.7 million in fiscal 2014.

over fiscal 2013. We expect our corporate office expenses to continue to rise in fiscal 2015 as we expand our corporate capabilities including a new revenue management function, organizational changes that drive greater functional support in our broadline operations and additional investments in technology.

Cost per case is an important metric management uses to measure our expense performance. This metric is calculated by taking the total operating expense of our North American Broadline companies, divided by the number of cases sold. Adjusted cost per case is calculated similarly, however the operating expense component excludes charges from executive retirement plans restructuring, multiemployer pension plans and severance, which are the Certain Items applicable to these companies, divided by the number of cases sold. Our corporate expenses are not included in the cost per cases metrics because the metric is a measure of efficiency in our operations. We seek to grow our sales and either minimize or reduce our costs on a per case basis. Our cost per case was a decrease of \$0.10 per case in fiscal 2014 as compared to fiscal 2013. Our adjusted cost per case calculated on a non-GAAP basis decreased \$0.06 in fiscal 2014 as compared to fiscal 2013, primarily from reduced pay-related expenses from our sales and information technology areas and lower retirement-related expenses, partially offset by increased costs from delivery pay-related expenses. We expect our cost per case in fiscal 2015 to be similar to fiscal 2014. More information on the rationale for the use of these measures and reconciliations can be found under “Non-GAAP Reconciliations.”

Certain Items Within Operating Expenses

Sysco’s results of operating expenses are impacted by Certain Items which are expenses that can be difficult to predict and can be unanticipated. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under “Non-GAAP Reconciliations.” Our significant Certain Items applicable for fiscal 2014 included costs in connection with the proposed merger with US Foods, a change in the estimate of our self insurance reserve and a liability for a settlement. Our significant Certain Items applicable for fiscal 2013 related to withdrawal liabilities from multiemployer pension plans, severance charges and costs from restructuring executive retirement plans. Costs from restructuring executive retirement plans are discussed below under Fiscal 2013 vs. Fiscal 2012.

We have incurred additional costs in connection with the proposed merger with US Foods announced in the second quarter of fiscal 2014 primarily from integration planning and due diligence costs. These costs totaled \$90.6 million in fiscal 2014. We anticipate incurring additional costs as we continue planning for integration of the two companies as well as other financing costs incurred in connection with the proposed merger.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In fiscal 2014 and fiscal 2013, we recorded provisions of \$1.5 million and \$41.9 million, respectively, related to multiemployer pension plan withdrawals.

Sysco maintains a self-insurance program covering portions of workers’ compensation, general and vehicle liability and property insurance costs. The amounts in excess of the self-insured levels are fully insured by third party

insurers. Liabilities associated with these risks are estimated in part by considering historical claims experience, medical cost trends, demographic factors, severity factors and other actuarial assumptions. In the second quarter of fiscal 2014, based on the historical trends of increased costs primarily attributable to our worker's compensation claims, we increased our estimates of our self-insurance reserve to a higher point in an estimated range of liability as opposed to our past position at the lower end of the range. This resulted in a charge of \$23.8 million in fiscal 2014.

During the first quarter of fiscal 2014, Sysco was made aware of certain alleged violations of California law relating to its use of remote storage units in the delivery of products. These are commonly referred to as drop sites. As of June 28, 2014, we have recorded a liability for a settlement of \$20 million. In July 2014, Sysco agreed to a \$19.4 million settlement, which includes a payment of \$15.0 million in penalties, \$3.3 million to fund four California Department of Public Health investigator positions for five years, a \$1.0 million donation to food banks across California, and \$0.1 million in legal fees. The cash portion of the settlement was paid in August 2014 and the donations to the food banks will occur in fiscal 2015. In the first quarter of fiscal 2014, we eliminated the use of drop sites across Sysco. During fiscal 2014, we introduced mandatory, annual food safety training for all employees across Sysco. We are implementing additional and improved food safety reporting, monitoring and compliance controls across our operations to ensure adherence to our policies.

Fiscal 2013 vs. Fiscal 2012

The following table sets forth the change in the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the prior year:

	2013	2012	Change in Dollars	% Change
	(Dollars in thousands)			
Gross profit	\$ 7,996,607	\$ 7,779,274	\$ 217,333	2.8 %
Operating expenses	6,338,129	5,888,642	449,487	7.6
Operating income	\$ 1,658,478	\$ 1,890,632	\$ (232,154)	(12.3)%
Gross profit	\$ 7,996,607	\$ 7,779,274	\$ 217,333	2.8 %
Adjusted operating expenses (Non-GAAP)	5,912,870	5,659,165	253,705	4.5
Adjusted operating income (Non-GAAP)	\$ 2,083,737	\$ 2,120,109	\$ (36,372)	(1.7) %

The decrease in operating income in fiscal 2013 as compared to fiscal 2012 was primarily driven by increased expenses, including charges related to our Business Transformation Project and increased pay-related expenses. The decrease in adjusted operating income in fiscal 2013 as compared to fiscal 2012 was primarily driven by increased expenses, including increased pay-related expenses.

Gross profit dollars increased in fiscal 2013 as compared to fiscal 2012 primarily due to increased sales. Gross margin was 18.01% in fiscal 2013, a decline of 35 basis points from the gross margin of 18.36% in fiscal 2012. This decline in gross margin was partially the result of increased growth from corporate-managed customers. Gross margin from these types of customers is generally lower than other types of customers. Increased competition resulting from a slow-growth market also contributed to the decline in gross margins.

We estimate that Sysco's product cost inflation was 2.2% during fiscal 2013. Based on our product sales mix for fiscal 2013, we were most impacted by higher levels of inflation in the poultry and meat product categories.

Operating expenses for fiscal 2013 increased 7.6%, or \$449.5 million, over fiscal 2012, primarily due to increased expenses from our Business Transformation Project, pay-related expenses, charges related to multiemployer pension plan withdrawals, depreciation and amortization expense and fuel. Adjusted operating expenses increased 4.5%, or \$253.7 million, in fiscal 2013 over fiscal 2012. The increase in adjusted operating expenses was primarily due to increased pay-related expenses, depreciation and amortization expense and fuel.

Operating Expenses Impacting Adjusted Operating Income

Pay-related expenses, excluding labor costs associated with our Business Transformation Project and retirement-related expenses, increased by \$48.3 million in fiscal 2013 over fiscal 2012. The increase was primarily due to added costs from companies acquired in the last 12 months and increased delivery and warehouse compensation. Delivery and warehouse compensation includes activity-based pay which increases when our case volumes increase. Additionally, pay rates were higher particularly in geographies where oil and gas exploration occurs due to labor shortages. These increases were partially offset by reduced sales and information technology pay-related expenses as a result of some of our Business Transformation Project initiatives. During fiscal 2013, we streamlined our sales management organization and modified marketing associate compensation plans. We also restructured our information technology department during the mid-point of fiscal 2013, reducing headcount as a result.

Our retirement-related expenses consist primarily of costs from our Retirement Plan, SERP and our defined contribution plan. The net impact in fiscal 2013 of our recurring retirement-related expenses, excluding charges noted below related to the executive retirement plans restructuring, was an increase of \$10.3 million as compared to fiscal 2012. This net increase consisted of \$46.0 million increased recurring costs from the defined contribution plan, a \$33.1 million decrease in our recurring net company-sponsored pension costs and a decrease of approximately \$2.6 million for other costs. At the end of fiscal 2012, Sysco decided to freeze future benefit accruals under the Retirement Plan as of December 31, 2012 for all U.S.-based salaried and non-union hourly employees. Effective January 1, 2013, these employees were eligible for additional contributions under an enhanced, defined contribution plan. Absent the Retirement Plan freeze, net company-sponsored pension costs would have increased \$106.9 million in fiscal 2013.

During fiscal 2013, we approved a plan to restructure our executive nonqualified retirement program including the SERP and our executive deferred compensation plan. A non-qualified defined contribution plan became effective on January 1, 2013 as a replacement plan and benefits were frozen under the SERP at the end of fiscal 2013. We believe this restructuring more closely aligned our executive plans with our non-executive plans. Additional non-recurring costs related to the restructuring are discussed below under “Certain Items Within Operating Expenses.”

Depreciation and amortization expense, excluding the increase related to our Business Transformation Project described below, increased by \$36.0 million in fiscal 2013 over fiscal 2012. The increase was primarily related to assets that were not placed in service in fiscal 2012 that were in service in fiscal 2013, primarily from new facilities, property from new acquisitions and expansions.

Fuel costs increased by \$18.9 million in fiscal 2013 over fiscal 2012. The increase was primarily due to increased contracted diesel prices and increased gallon usage. Our costs per gallon increased 2.8% in fiscal 2013 over fiscal 2012. Our activities to mitigate fuel costs include reducing miles driven by our trucks through improved routing techniques, improving fleet utilization by adjusting idling time and maximum speeds and using fuel surcharges. We routinely enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements with a goal of mitigating a portion of the volatility in fuel prices.

Our fuel commitments will result in either additional fuel costs or avoided fuel costs based on the comparison of the prices on the fixed price contracts and market prices for the respective periods. In fiscal 2013, the forward purchase commitments resulted in an estimated \$17.8 million of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes. In fiscal 2012, the forward purchase commitments resulted in an estimated \$20.2 million of avoided fuel costs as the fixed price contracts were generally lower than market prices for the contracted volumes.

Our cost per case was an increase of \$0.03 per case in fiscal 2013 as compared to fiscal 2012. Our adjusted cost per case calculated on a non-GAAP basis decreased by \$0.01 per case as compared to fiscal 2012 primarily from reduced pay-related expenses from our sales and information technology areas, partially offset by increased costs from delivery and warehouse pay-related expenses, increased retirement-related expenses and fuel increases.

Certain Items Within Operating Expenses

Our results of operating expenses are impacted by Certain Items which are expenses that can be non-recurring or not a part of our everyday operations. See more information on the rationale of the use of these measures and reconciliations to GAAP numbers can be found under “Non-GAAP Reconciliations.”

Expenses related to our Business Transformation Project, inclusive of pay-related and software amortization expense, were \$330.5 million in fiscal 2013 and \$193.1 million in fiscal 2012, representing an increase of \$137.4 million. The increase in fiscal 2013 resulted in part from the initiation of software amortization as the system was placed into service in August 2012. The increase in depreciation and amortization expense related to the Business Transformation Project was \$59.6 million in fiscal 2013 over fiscal 2012. Our project was not in the deployment stage during any period of fiscal 2012; therefore, a greater portion of the costs were capitalized in fiscal 2012.

As a result of executive retirement plan restructuring discussed above, we incurred \$21.0 million in charges in fiscal 2013. These charges are in addition to the recurring retirement-related expenses discussed above.

From time to time, we may voluntarily withdraw from multiemployer pension plans to minimize or limit our future exposure to these plans. In fiscal 2013 and fiscal 2012, we recorded provisions of \$41.9 million and \$21.9 million, respectively, related to multiemployer pension plan withdrawals.

Net Earnings

Net earnings decreased 6.1% in fiscal 2014 from fiscal 2013 due primarily to the changes in operating income discussed above. Adjusted net earnings decreased 1.8% during fiscal 2014.

Net earnings for fiscal 2013 decreased 11.5% over fiscal 2012. This decrease was primarily due to changes in operating income discussed above. Adjusted net earnings increased 0.1% during fiscal 2013.

The effective tax rate of 36.87% for fiscal 2014 was negatively impacted primarily by two items. First, we recorded tax expense of \$6.2 million related to a non-deductible penalty that the company incurred. Second, we recorded net tax expense of \$5.2 million for tax and interest related to various federal, foreign and state uncertain tax positions. This negative impact was partially offset by the recording of \$5.7 million of tax benefit related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate of 35.87% for fiscal 2013 was favorably impacted primarily by two items. First, we recorded a tax benefit of \$14.0 million related to changes in estimates for the prior year domestic tax provision. Second, we recorded a tax benefit of \$8.8 million related to disqualifying dispositions of Sysco stock pursuant to share-based compensation arrangements. The effective tax rate was negatively impacted by the recording of \$5.7 million in tax and interest related to various federal, foreign and state uncertain tax

positions. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate also had the impact of reducing the effective tax rate.

The effective tax rate for fiscal 2012 was 37.13%. Indefinitely reinvested earnings taxed at foreign statutory tax rates less than our domestic tax rate had the impact of reducing the effective tax rate.

Earnings Per Share

Basic earnings per share in fiscal 2014 was \$1.59, a 5.4% decrease from the fiscal 2013 amount of \$1.68 per share. Diluted earnings per share in fiscal 2014 was \$1.58, a 5.4% decrease from the fiscal 2013 amount of \$1.67 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share in fiscal 2014 was \$1.76, a decrease of 1.1% from the comparable prior year period amount of \$1.78.

Basic earnings per share in fiscal 2013 was \$1.68, a 12.0% decrease from the comparable prior year period amount of \$1.91 per share. Diluted earnings per share in fiscal 2013 was \$1.67, a 12.1% decrease from the comparable prior year period amount of \$1.90 per share. This decrease was primarily the result of the factors discussed above. Adjusted diluted earnings per share in fiscal 2013 was \$2.14, a decrease of 0.5% from the comparable prior year period amount of \$2.15.

All earnings per share metrics for fiscal 2013 were partially impacted from greater shares outstanding. Sysco experienced a greater number of stock option exercises in fiscal 2013 as compared to fiscal 2012, which increased the number of shares outstanding.

Non-GAAP Reconciliations and Adjusted Cost per Case

Sysco's results of operations are impacted by costs from executive retirement plans restructuring charges, multiemployer pension (MEPP) charges, severance charges, merger and integration costs associated with our pending US Foods merger, a fiscal 2013 acquisition related charge, change in estimate for self-insurance costs, charges from a liability for a settlement, facility closure charges and amortization of US Foods financing costs. Management believes that adjusting its operating expenses, operating income, interest expense, net earnings and diluted earnings per share to remove the impact of these items provides an important perspective with respect to underlying business trends and results and provides meaningful supplemental information to both management and investors that is indicative of the performance of the company's underlying operations and facilitates comparison on a year-over-year basis.

Additionally, the comparison of Sysco's results of operations of fiscal 2013 to fiscal 2012 was impacted by costs from the Business Transformation Project (BTP costs), as the level of costs in each year was significantly different. As such, operating expenses, operating income, interest expense, net earnings and diluted earnings per share are adjusted below to facilitate comparison on a year-over-year basis of fiscal 2013 to fiscal 2012. In fiscal 2014, BTP costs were not considered Certain Items as the costs of this project became a part of our general corporate expense; as a result, our fiscal 2013 period excludes BTP costs when comparing to fiscal 2014, however it includes BTP costs when comparing to fiscal 2012.

The company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute in assessing the company's results of operations for periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the tables below, where applicable, each period presented is adjusted to remove the costs described above. In the tables below, individual components of diluted earnings per share may not add to the total presented due to rounding. Adjusted diluted earnings per share is calculated using adjusted net earnings divided by diluted shares outstanding.

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Set forth below is a reconciliation of actual operating expenses, operating income, interest expense, net earnings and diluted earnings per share to adjusted results for these measures for fiscal 2014 and fiscal 2013:

	2014	2013	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Operating expenses (GAAP)	\$ 6,593,913	\$ 6,338,129	\$ 255,784	4.0 %
Impact of restructuring executive retirement plans	(3,329)	(20,990)	17,661	(84.1)
Impact of MEPP charge	(1,451)	(41,876)	40,425	(96.5)
Impact of severance charges	(7,202)	(23,206)	16,004	(69.0)
Impact of US Foods merger and integration costs	(90,571)	-	(90,571)	
Impact of FY13 acquisition-related charge	-	(5,998)	5,998	
Impact of change in estimate of self insurance	(23,841)	-	(23,841)	
Impact of settlement liability	(20,000)	-	(20,000)	
Impact of facility closure charges	(3,443)	(2,645)	(798)	30.2
Adjusted operating expenses (Non-GAAP)	\$ 6,444,076	\$ 6,243,414	\$ 200,662	3.2 %
Operating Income (GAAP)	\$ 1,587,122	\$ 1,658,478	\$ (71,356)	(4.3) %
Impact of restructuring executive retirement plans	3,329	20,990	(17,661)	(84.1)
Impact of MEPP charge	1,451	41,876	(40,425)	(96.5)
Impact of severance charges	7,202	23,206	(16,004)	(69.0)
Impact of US Foods merger and integration costs	90,571	-	90,571	
Impact of FY13 acquisition-related charge	-	5,998	(5,998)	
Impact of change in estimate of self insurance	23,841	-	23,841	
Impact of settlement liability	20,000	-	20,000	
Impact of facility closure charges	3,443	2,645	798	30.2
Adjusted operating income (Non-GAAP)	\$ 1,736,959	\$ 1,753,193	\$ (16,234)	(0.9) %
Interest expense (GAAP)	\$ 123,741	\$ 128,495	\$ (4,754)	(3.7) %
Impact of US Foods financing costs	(6,790)	-	(6,790)	
Adjusted operating income (Non-GAAP)	\$ 116,951	\$ 128,495	\$ (11,544)	(9.0) %
Net earnings (GAAP) (1)	\$ 931,533	\$ 992,427	\$ (60,894)	(6.1) %
Impact of restructuring executive retirement plans	2,102	13,461	(11,359)	(84.4)
Impact of MEPP charge	916	26,855	(25,939)	(96.6)
Impact of severance charges	4,546	14,882	(10,336)	(69.5)
Impact of US Foods merger and integration costs	57,176	-	57,176	
Impact of FY13 acquisition-related charge	-	5,998	(5,998)	
Impact of change in estimate of self insurance	15,050	-	15,050	
Impact of settlement liability	18,156	-	18,156	
Impact of facility closure charges	2,173	1,696	477	28.1
Impact of US Foods financing costs	4,286	-	4,286	
Adjusted net earnings (Non-GAAP) (1)	\$ 1,035,938	\$ 1,055,319	\$ (19,381)	(1.8) %
Diluted earnings per share (GAAP) (1)	\$ 1.58	\$ 1.67	\$ (0.09)	(5.4) %
Impact of restructuring executive retirement plans	-	0.02	(0.02)	
Impact of MEPP charge	-	0.05	(0.05)	
Impact of severance charges	0.01	0.03	(0.02)	(66.7)

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Impact of US Foods merger and integration costs	0.10	-	0.10	
Impact of FY13 acquisition-related charge	-	0.01	(0.01)	
Impact of change in estimate of self insurance	0.03	-	0.03	
Impact of settlement liability	0.03	-	0.03	
Impact of facility closure charges	-	-	-	
Impact of US Foods financing costs	0.01	-	0.01	
Adjusted diluted earnings per share (Non-GAAP) (1)	\$ 1.76	\$ 1.78	\$ (0.02)	(1.1) %
Diluted shares outstanding	590,216,220	592,675,110		

(1) The net earnings and diluted earnings per share impacts are shown net of tax, except as noted below. The aggregate tax impact of adjustments for executive retirement plans restructuring charges, MEPP charges, severance charges, merger and integration costs associated with our pending US Foods merger, a fiscal 2013 acquisition related charge, change in estimate for self-insurance costs, charges from a liability for a settlement, facility closure charges and amortization of US Foods financing costs was \$67.2 million and \$37.8 million for fiscal 2014 and fiscal 2013, respectively. Amounts are calculated by multiplying the operating income impact of each item by the respective year's effective tax rate, with the exception of the charges from the settlement liability, which has an estimated non-deductible portion, and the fiscal 2013 acquisition-related charge, which has no tax impact.

Set forth below is a reconciliation of actual operating expenses, operating income, net earnings and diluted earnings per share to adjusted results for these measures for fiscal 2013 and fiscal 2012:

	2013	2012	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Operating expenses (GAAP)	\$ 6,338,129	\$ 5,888,642	\$ 449,487	7.6 %
Impact of BTP costs	(330,544)	(193,126)	(137,418)	71.2
Impact of MEPP charge	(41,876)	(21,899)	(19,977)	91.2
Impact of severance charges	(23,206)	(14,452)	(8,754)	60.6
Impact of restructuring executive retirement plans	(20,990)	-	(20,990)	
Impact of acquisition-related charge	(5,998)	-	(5,998)	
Impact of facility closure charges	(2,645)	-	(2,645)	
Adjusted operating expenses (Non-GAAP)	\$ 5,912,870	\$ 5,659,165	\$ 253,705	4.5 %
Operating Income (GAAP)	\$ 1,658,478	\$ 1,890,632	\$ (232,154)	(12.3) %
Impact of BTP costs	330,544	193,126	137,418	71.2
Impact of MEPP charge	41,876	21,899	19,977	91.2
Impact of severance charges	23,206	14,452	8,754	60.6
Impact of restructuring executive retirement plans	20,990	-	20,990	
Impact of acquisition-related charge	5,998	-	5,998	
Impact of facility closure charges	2,645	-	2,645	
Adjusted operating income (Non-GAAP)	\$ 2,083,737	\$ 2,120,109	\$ (36,372)	(1.7) %
Net earnings (GAAP) (1)	\$ 992,427	\$ 1,121,585	\$ (129,158)	(11.5) %
Impact of BTP costs	211,978	121,418	90,560	74.6
Impact of MEPP charge	26,855	13,768	13,087	95.1
Impact of severance charges	14,882	9,086	5,796	63.8
Impact of restructuring executive retirement plans	13,461	-	13,461	
Impact of acquisition-related charge	5,998	-	5,998	
Impact of facility closure charges	1,696	-	1,696	
Adjusted net earnings (Non-GAAP) (1)	\$ 1,267,297	\$ 1,265,857	\$ 1,440	0.1 %
Diluted earnings per share (GAAP) (1)	\$ 1.67	\$ 1.90	\$ (0.23)	(12.1) %
Impact of BTP costs	0.36	0.21	0.15	71.4

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Impact of MEPP charge	0.05	0.02	0.03	150.0
Impact of severance charges	0.03	0.02	0.01	50.0
Impact of restructuring executive retirement plans	0.02	-	0.02	
Impact of acquisition-related charge	0.01	-	0.01	
Impact of facility closure charges	-	-	-	
Adjusted diluted earnings per share (Non-GAAP) (1)	\$ 2.14	\$ 2.15	\$ (0.01)	(0.5) %
Diluted shares outstanding	592,675,110	588,991,441		

(1) The net earnings and diluted earnings per share impacts are shown net of tax, except as noted below. The aggregate tax impact of adjustments for Business Transformation Project, MEPP charge, severance charges, executive retirement plans restructuring, and facility closure charges was \$150.3 million and \$85.2 million for fiscal 2013 and fiscal 2012, respectively. The fiscal 2013 acquisition-related charge had no tax impact.

Cost per case is an important metric management uses to measure our expense performance. This metric is calculated by taking the total operating expense of our North American Broadline companies, divided by the number of cases sold. Adjusted cost per case is calculated similarly, however the operating expense component excludes charges from executive retirement plans restructuring, multiemployer pension plans and severance which are the Certain Items applicable to these companies, divided by the number of cases sold. Our corporate expenses are not included in the cost per cases metrics because the metric is a measure of efficiency in our operations. We seek to grow our sales and either minimize or reduce our costs on a per case basis. Our North American Broadline companies represent approximately 80% of our of total sales and 80% of our total operating expenses prior to corporate expenses. Sysco considers adjusted cost per case to be a measure that provides useful information to management and investors about Sysco's expense management. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. In the table that follows, the change in adjusted cost per case is reconciled to cost per case for the periods presented.

	Fiscal 2014 change from Fiscal 2013	Fiscal 2013 change from Fiscal 2012
(Decrease) Increase in cost per case	\$ (0.10)	\$ 0.03
Impact of Certain Items (1)	0.04	(0.04)
(Decrease) in adjusted cost per case (Non-GAAP basis)	\$ (0.06)	\$ (0.01)

(1) For all periods, the impact of Certain Items excludes charges from executive retirement plans restructuring, multiemployer pension plans and severance. For the fiscal 2014 comparison to fiscal 2013, the majority relates to multiemployer pension plans in the amount of \$0.04 per case attributable to charges taken in fiscal 2013 that did not recur at the same magnitude in fiscal 2014. For the fiscal 2013 comparison to fiscal 2012, the majority relates to multiemployer pension plans in the amount of \$0.03 per case attributable to charges taken in fiscal 2013 that did not recur at the same magnitude in fiscal 2012, and the remainder relates to severance charges.

Segment Results

We have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in accounting provisions related to disclosures about segments of an enterprise. The accounting policies for the segments are the same as those disclosed by Sysco within the Financial Statements and Supplementary Data within Part II Item 8 of this Form 10-K. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies.

Management evaluates the performance of each of our operating segments based on its respective operating income results. Corporate expenses and adjustments generally include all expenses of the corporate office and Sysco's shared service center. These also include all share-based compensation costs and expenses related to the company's Business Transformation Project. While a segment's operating income may be impacted in the short-term by increases or decreases in gross profits, expenses, or a combination thereof, over the long-term each business segment is expected to increase its operating income at a greater rate than sales growth. This is consistent with our long-term goal of leveraging earnings growth at a greater rate than sales growth.

The following table sets forth the operating income of each of our reportable segments and the other segment expressed as a percentage of each segment's sales for each period reported and should be read in conjunction with Note 21, "Business Segment Information" to the Consolidated Financial Statements in Item 8:

	Operating Income as a Percentage of Sales		
	2014	2013	2012
Broadline	6.6 %	6.6 %	7.0 %
SYGMA	0.6	0.9	1.1
Other	3.2	3.6	3.8

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The following table sets forth the change in the selected financial data of each of our reportable segments and the other segment expressed as a percentage increase over the prior year and should be read in conjunction with Note 21, “Business Segment Information” to the Consolidated Financial Statements in Item 8:

	2014		2013	
	Sales	Operating Income	Sales	Operating Income
Broadline	4.4 %	3.1 %	5.0 %	(0.6) %
SYGMA	6.9	(26.9) (1)	0.8	(14.7) (1)
Other	6.7	(5.0)	14.4	8.3

(1) SYGMA had operating income of \$38.0 million in fiscal 2014, \$52.0 million in fiscal 2013 and \$61.0 million in fiscal 2012.

The following table sets forth sales and operating income of each of our reportable segments, the other segment, and intersegment sales, expressed as a percentage of aggregate segment sales, including intersegment sales, and operating income, respectively. For purposes of this statistical table, operating income of our segments excludes corporate expenses and adjustments of \$1,020.3 million in fiscal 2014, \$894.3 million in fiscal 2013 and \$677.6 million in fiscal 2012 that are not charged to our segments. This information should be read in conjunction with Note 21, “Business Segment Information” to the Consolidated Financial Statements in Item 8:

	2014		2013		2012	
	Sales	Segment Operating Income	Sales	Segment Operating Income	Sales	Segment Operating Income
Broadline	81.0 %	94.9 %	81.3 %	94.1 %	81.2 %	94.1 %
SYGMA	13.3	1.5	13.0	2.0	13.5	2.4
Other	6.3	3.6	6.2	3.9	5.7	3.5
Intersegment sales	(0.6)	-	(0.5)	-	(0.4)	-
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Broadline Segment

The Broadline reportable segment is an aggregation of the company’s U.S., Canadian, Caribbean and European Broadline segments. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. These companies also provide custom-cut meat

operations. Broadline operations have significantly higher operating margins than the rest of Sysco's operations. In fiscal 2014, the Broadline operating results represented approximately 81.0% of Sysco's overall sales and 94.9% of the aggregate operating income of Sysco's segments, which excludes corporate expenses.

There are several factors which contribute to these higher operating results as compared to the SYGMA and Other operating segments. We have invested substantial amounts in assets, operating methods, technology and management expertise in this segment. The breadth of its sales force, geographic reach of its distribution area and its purchasing power allow us to benefit from this segment's earnings.

Sales

Sales for fiscal 2014 were 4.4% higher than fiscal 2013. Sales for fiscal 2014 increased as a result of sales from acquisitions that occurred within the last 12 months, case volume growth and product cost inflation and the resulting increase in selling prices. Our sales growth in fiscal 2014 was greater with our corporate-managed customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer growth has been negatively influenced market conditions including lower consumer spend. The disparity in the growth rate between these customer types moderated in the last half of fiscal 2014 with locally-managed sales growth trending at similar rates as corporate-managed customers. Sales from acquisitions within the last 12 months favorably impacted sales by 1.7% in fiscal 2014. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.0% during fiscal 2014, driven mainly by inflation in the meat, seafood and dairy categories. The exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.8% in fiscal 2014.

Sales were 5.0% greater in fiscal 2013 than fiscal 2012. Sales for fiscal 2013 increased as a result of product cost inflation and the resulting increase in selling prices, sales from acquisitions that occurred within the last 12 months and improving case volumes. Our sales growth in fiscal 2013 has been greater with our corporate-managed customers as compared to sales growth with our locally-managed customers. We believe our locally-managed customer sales growth has been negatively influenced by lower consumer sentiment. Sales from acquisitions within the last 12 months contributed 1.6% to the overall sales comparison for fiscal 2013. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 2.3% in fiscal 2013. The

changes in the exchange rates used to translate our foreign sales into U.S. dollars did not have a significant impact on sales when compared to fiscal 2012.

Operating Income

Fiscal 2014 vs. Fiscal 2013

Operating income increased by 3.1% in fiscal 2014 over fiscal 2013. Fiscal 2014 included \$1.5 million in charges related to withdrawals from multiemployer pension plans, as compared to \$41.9 million in charges in fiscal 2013. We also experienced growth in our gross profits, increased expenses from higher case volumes, some of which is attributable to our acquired operations, increased depreciation and amortization and increased delivery costs. These were partially offset by benefits from Business Transformation Project initiatives included lower sales organization costs and retirement-related expenses. As a percentage of sales, we experienced favorable expense management partially from benefits from our Business Transformation Project initiatives.

Gross profit dollars increased in fiscal 2014 primarily due to increased sales; however, gross profit dollars increased at a lower rate than sales. Gross profits grew at a greater rate in the second half of fiscal 2014 as compared to the same time period in fiscal 2013 as result of increased inflation, higher locally-managed customer case growth and in part from our Business Transformation Project initiatives. This decline in gross margin was partially the result of weak restaurant traffic and increased competition resulting from a slow-growth market. Increased sales to lower margin corporate-managed customers also contributed to the decline in fiscal 2014. These customers purchase higher volumes and therefore margins tend to be lower with this customer group than our locally-managed customers. Our locally-managed customers comprise a significant portion of our overall volumes and an even greater percentage of profitability because of the high level of value added services we typically provide to this customer group. The disparity in the growth rate between these customer types moderated in the last half of fiscal 2014 with locally-managed sales growth trending at similar rates as corporate-managed customers. If sales from our locally-managed customers do not grow at the same rate as sales from these corporate-managed customers, our gross margins may continue to decline. Our inflation rates were relatively stable over the first three quarters of fiscal 2014; however, it increased in the fourth quarter, all quarters being compared to the past year. Fourth quarter fiscal 2014 inflation was seen primarily in the meat, seafood and dairy categories which represent more than one-third of our annual sales. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can be difficult to pass on to our customers and inflation can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings.

Operating expenses for the Broadline segment increased in fiscal 2014 as compared to fiscal 2013. Fiscal 2014 included \$1.5 million in charges related to withdrawals from multiemployer pension plans, as compared to \$41.9 million in charges in fiscal 2013. The increase in expenses for fiscal 2014 as compared to fiscal 2013 was driven largely by expenses from acquired operations, expenses attributable to volume growth and increased depreciation and amortization expense. Pay-related expenses increased primarily from added costs from companies acquired in the last 12 months as well as increased delivery compensation, partially attributable to case growth. Depreciation and

amortization increased primarily from assets that were not placed in service in fiscal 2013 that were in service in fiscal 2014. These increases were partially offset by reduced sales and information technology pay-related expenses. Retirement-related costs decreased primarily from the plan freezes that occurred in fiscal 2013. Our expense on a cost per case basis decreased as compared to fiscal 2013 primarily from reduced pay-related expenses from our sales and information technology areas and lower retirement-related expenses, partially offset by increased costs from delivery pay-related expenses.

Fiscal 2013 vs. Fiscal 2012

Operating income decreased by 0.6% in fiscal 2013 from fiscal 2012. This decrease was driven by operating expenses increasing more than gross profit dollars.

Gross profit dollars increased in fiscal 2013 primarily due to increased sales; however, gross profit dollars increased at a lower rate than sales. This decline in gross margin was partially the result of increased growth from corporate-managed customers. Gross margin from these types of customers is generally lower than from other types of customers. Increased competition resulting from a slow-growth market also contributed to the decline in gross margins. Our Broadline segment experienced product cost inflation in fiscal 2013. Based on our product sales mix during fiscal 2013, we were most impacted by higher levels of inflation in the poultry and meat product categories.

Operating expenses for the Broadline segment increased in fiscal 2013 as compared to fiscal 2012. The expense increases in fiscal 2013 were driven largely by charges related to multiemployer pension plan withdrawals, pay-related expenses including severance costs, depreciation and amortization expense and fuel. The increase in pay-related expenses was primarily due to increased delivery and warehouse compensation, partially attributable to case growth, and added costs from companies acquired in the last 12 months. Delivery and warehouse compensation includes activity-based pay which will increase when our case volumes increase. Additionally, pay rates have been higher particularly in geographies where oil and gas exploration occurs. These increases were partially offset by reduced sales and information technology pay-related expenses. Our enhanced defined contribution plan became

effective January 1, 2013 and contributed to the increase in operating expenses. Depreciation and amortization increased primarily from assets that were not placed in service in fiscal 2012 that were in service in fiscal 2013, primarily from new facilities, property from new acquisitions and expansions. Fuel costs were \$16.7 million higher in fiscal 2013 than in fiscal 2012.

In fiscal 2013 and fiscal 2012, we recorded provisions of \$41.9 million and \$21.9 million, respectively, related to multiemployer pension plan withdrawals.

Our fiscal 2013 cost per case, excluding charges related to withdrawals from multiemployer pension plans, decreased as compared to fiscal 2012 primarily from reduced pay-related expenses from our sales and information technology areas, partially offset by increased costs from delivery and warehouse pay-related expenses, increased retirement-related expenses and fuel increases.

SYGMA Segment

SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. SYGMA operations have traditionally had lower operating income as a percentage of sales than Sysco's other segments. This segment of the foodservice industry has generally been characterized by lower overall operating margins as the volume that these customers command allows them to negotiate for reduced margins. These operations service chain restaurants through contractual agreements that are typically structured on a fee per case delivered basis.

Sales

Sales were 6.9% greater in fiscal 2014 than in fiscal 2013. The increase was primarily due to new customers. Other contributors to the increase were product cost inflation and the resulting increase in selling prices and case volume increases from existing customers. We do not expect sales growth to continue at the same level in fiscal 2015 as compared to fiscal 2014, primarily due to the expectation of fewer new customers in fiscal 2015 as well as competitive pricing pressures.

Sales were 0.8% greater in fiscal 2013 than in fiscal 2012. The increase was primarily due to product cost inflation and the resulting increase in selling prices, partially offset by case volume declines. Case volumes were challenged from low levels of growth from existing customers and from lost customers.

One chain restaurant customer (The Wendy's Company) accounted for approximately 23% of the SYGMA segment sales for the fiscal year ended June 28, 2014. SYGMA maintains multiple regional contracts with varied expiration dates with this customer. While the loss of this customer would have a material adverse effect on SYGMA, we do not believe that the loss of this customer would have a material adverse effect on Sysco as a whole.

Operating Income

Operating income decreased by 26.9% in fiscal 2014 from fiscal 2013. Gross profit dollars increased 2.8% while operating expenses increased 6.5% in fiscal 2014 over fiscal 2013. Gross profit dollar growth was lower than sales growth primarily due to reduced fuel surcharges. Operating expenses increased in fiscal 2014 largely due to increased delivery costs including pay-related expenses. Also contributing to the increase in expense were startup costs related to new customers and expenses incurred for a facility consolidation. Operating income is not expected to decrease at the same rate in fiscal 2015 as compared to fiscal 2014 as startup costs for new customers should be at lower amounts than those experienced in fiscal 2014. We continue to focus on increasing profitability while remaining responsive to our customers' needs.

Operating income decreased by 14.7% in fiscal 2013 from fiscal 2012. Gross profit dollars decreased 0.9% while operating expenses increased 1.2% in fiscal 2013 over fiscal 2012. These gross profit results largely reflect the sluggish sales environment. Operating expenses increased in fiscal 2013 largely due to increased delivery costs including pay-related expenses. Our enhanced defined contribution plan became effective January 1, 2013 and contributed to the increase in pay-related expense.

Other Segment

"Other" financial information is attributable to our other operating segments, including our specialty produce and lodging industry products segments, a company that distributes specialty imported products, a company that distributes to international customers and our Sysco Ventures platform, our suite of technology solutions that help support the business needs of our customers. These operating segments are discussed on an aggregate basis as they do not represent reportable segments under segment accounting literature.

On an aggregate basis, our "Other" segment has had a lower operating income as a percentage of sales than Sysco's Broadline segment. Sysco has acquired some of the operating companies within this segment in relatively recent years. These operations generally operate in a niche within the foodservice industry except for our lodging industry supply company. Each individual operation is also generally smaller in sales and scope than an average Broadline operation and each of these operating segments is considerably smaller in sales and overall scope than the Broadline segment. In fiscal 2014, in the aggregate, the "Other" segment

represented approximately 6.3% of Sysco's overall sales and 3.6% of the aggregate operating income of Sysco's segments, which excludes corporate expenses and adjustments.

Operating income decreased 5.0%, or \$4.9 million, in fiscal 2014 as compared to fiscal 2013. The decrease in operating income was largely due to startup costs from our Sysco Ventures operations, partially offset by increased earnings from our specialty produce and lodging industry products segments. Additionally, retirement-related expenses were greater for these companies for fiscal 2014 as our enhanced defined contribution plan became effective January 1, 2013, and some of these operations were not a part of prior benefit plans.

Operating income increased 8.3% for fiscal 2013 over fiscal 2012. The increase in operating income was primarily driven by earnings from our lodging industry products segment, our specialty import business, that was acquired in the third quarter of fiscal 2012, and our company that distributes to international customers. An additional item partially offsetting the increase in operating income was an increase in retirement-related expense for these companies. Our enhanced defined contribution plan became effective January 1, 2013 and contributed to increased expense at these companies.

Liquidity and Capital Resources

Highlights

Comparisons of the cash flows from fiscal 2014 to fiscal 2013:

- Cash flows from operations were \$1.49 billion this year compared to \$1.51 billion last year.
- Capital expenditures totaled \$523.2 million this year compared to \$511.9 million last year.
- Free cash flow was \$995.4 million this year compared to \$1.0 billion last year (See Non-GAAP reconciliation below under the heading "Free Cash Flow.")
- Cash used for acquisition of businesses was \$79.3 million this year compared to \$397.4 million last year.
- Net bank borrowings were a net borrowing of \$34.5 million this year compared to a net borrowing of \$95.5 million last year.
- Proceeds from exercises of share-based compensation awards was \$255.6 million this year compared to \$628.7 million last year.
- Treasury stock purchases were \$332.4 million this year compared to \$721.6 million last year.
- Dividends paid were \$667.2 million this year compared to \$648.3 million last year.

Sources and Uses of Cash

Sysco's strategic objectives include continuous investment in our business; these investments are funded by a combination of cash from operations and access to capital from financial markets. Our operations historically have produced significant cash flow. Cash generated from operations is generally allocated to:

- working capital requirements;
- investments in facilities, systems, fleet, other equipment and technology;
- return of capital to shareholders, including cash dividends and share repurchases;
- acquisitions compatible with our overall growth strategy;
- contributions to our various retirement plans; and
- debt repayments.

Any remaining cash generated from operations may be invested in high-quality, short-term instruments. As a part of our ongoing strategic analysis, we regularly evaluate business opportunities, including potential acquisitions and sales of assets and businesses, and our overall capital structure. Any transactions resulting from these evaluations may materially impact our liquidity, borrowing capacity, leverage ratios and capital availability.

In the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately \$3.5 billion for the equity of US Foods, comprised of \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately \$4.7 billion as of September 28, 2013, bringing the total enterprise value to \$8.2 billion at the time of the merger announcement. As of August 13, 2014, the merger consideration is estimated as follows: approximately \$3.7 billion for the equity of US Foods, comprised of \$3.2 billion of Sysco common stock valued using the seven day average through August 13, 2014 and \$500 million of cash. US Foods' net debt to be assumed or refinanced was approximately \$4.8 billion as of June 28, 2014, bringing the total enterprise value to \$8.5 billion as of August 13, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated. We have secured a fully committed bridge financing and expect to issue longer-term financing prior to closing. After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly

13%, of Sysco. This merger is currently pending a regulatory review process by the Federal Trade Commission and we estimate the merger will close by the end of the third quarter or in the fourth quarter of calendar 2014. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay \$300 million to the owners of US Foods if the merger were cancelled.

We continue to generate substantial cash flows from operations and remain in a strong financial position, however our liquidity and capital resources can be influenced by economic trends and conditions that impact our results of operations. Uncertain economic conditions and uneven levels of consumer confidence and the resulting pressure on consumer disposable income have lowered our sales growth and impacted our cash flows from operations. Competitive pressures in a low growth environment have also lowered our gross margins which in turn can cause our cash flows from operations to decrease. We believe our mechanisms to manage working capital, such as credit monitoring, optimizing inventory levels and maximizing payment terms with vendors, and our mechanisms to manage the items impacting our gross profits have been sufficient to limit a significant unfavorable impact on our cash flows from operations. We believe these mechanisms will continue to prevent a significant unfavorable impact on our cash flows from operations. As of June 28, 2014, we had \$413.0 million in cash and cash equivalents, approximately 32% of which was held by our international subsidiaries generated from our earnings of international operations. If these earnings were transferred among countries or repatriated to the U.S., such amounts may be subject to additional tax obligations; however, we do not currently anticipate the need to relocate this cash.

We believe the following sources will be sufficient to meet our anticipated cash requirements for the next twelve months, while maintaining sufficient liquidity for normal operating purposes:

- our cash flows from operations;
- the availability of additional capital under our existing commercial paper programs, supported by our revolving credit facility, and bank lines of credit;
- our ability to access capital from financial markets, including issuances of debt securities, either privately or under our shelf registration statement filed with the Securities and Exchange Commission (SEC).

Due to our strong financial position, we believe that we will continue to be able to effectively access the commercial paper market and long-term capital markets, if necessary. We believe our cash flows from operations will improve over the long-term due to benefits from our Business Transformation Project and initiatives to improve our working capital management and cash flows from the operations of US Foods once acquired.

Cash Flows

Operating Activities

Fiscal 2014 vs. Fiscal 2013

We generated \$1.49 billion in cash flow from operations in fiscal 2014, as compared to \$1.51 billion in fiscal 2013. This decrease of \$18.8 million, or 1.2%, was largely attributable to a negative comparison on pension expense and contributions, reduced net earnings, a negative comparison on multiemployer pension withdrawal provisions and payments and an unfavorable comparison on prepaid expenses. Partially offsetting these unfavorable comparisons was a favorable comparison on working capital, several significant accruals in fiscal 2014 and an increase in non-cash depreciation and amortization.

Included in the change in other long-term liabilities was a negative comparison on pension expense and contributions, which contributed \$65.0 million to the unfavorable comparison on cash flow from operations for fiscal 2014 to fiscal 2013. Pension expense was \$4.8 million and pension contributions were \$24.8 million in fiscal 2014, which resulted in a decrease to other long-term liabilities. Pension expense was \$138.3 million and pension contributions were \$93.6 million in fiscal 2013, which resulted in an increase to other long-term liabilities.

Included in the change in accrued expenses was a negative comparison of \$49.4 million on multiemployer withdrawal provisions and payments. Fiscal 2014 included a provision for multiemployer pension withdrawal of \$1.5 million and payments of \$40.8 million, which resulted in a decrease to accrued expenses. Fiscal 2013 included a provision for multiemployer pension withdrawal of \$41.9 million and payments of \$31.8 million, which resulted in an increase to accrued expenses. Partially offsetting the unfavorable impact of the multiemployer accrual comparison were several significant accruals unique to fiscal 2014, which contributed \$48.5 million to cash flow from operations for fiscal 2014 to fiscal 2013.

Changes in working capital, specifically accounts receivable, inventory and accounts payable, had a favorable comparison of \$129.7 million on the comparison of cash flow from operations for fiscal 2014 to fiscal 2013. There was a favorable comparison on accounts payable, which was partially offset by unfavorable comparisons on accounts receivable and inventory. Accounts receivable increased in both periods as a result of increases in sales. Our sales growth in fiscal 2014 has been greater with our corporate-managed customers and payment terms for these types of customers are traditionally longer than average. This mix of longer-term receivables contributed to the unfavorable comparison on cash flow from fiscal 2014 to fiscal 2013. Inventory increased in both

periods as a result of increases in sales. However, inventory turnover improved in fiscal 2014, as compared to a deterioration of inventory turnover in fiscal 2013, due to working capital improvements in inventory. Fiscal 2014 also included an increase in inventory in transit, which offset the favorable comparison due to working capital improvements, resulting in an overall unfavorable comparison on cash flow from fiscal 2014 to fiscal 2013. Accounts payable increased in both periods as a result of increases in sales. The year-over-year impact of the change in accounts payable is favorable to cash flow from operations due to working capital improvements in accounts payable as well as an increase in fiscal 2014 in accounts payable related to inventory in transit.

Fiscal 2013 vs. Fiscal 2012

We generated \$1.5 billion in cash flow from operations in fiscal 2013, as compared to \$1.4 billion in fiscal 2012. The increase of \$107.4 million or 7.6%, was largely attributable to a favorable comparison year-over-year on the settlement payments made to the Internal Revenue Service (IRS), an increase in non-cash depreciation and amortization expense and a favorable comparison for multiemployer and company-sponsored pension expense and contributions. These decreases were partially offset by a reduction in net earnings, the redemption of some of our corporate-owned life insurance (COLI) policies in fiscal 2012 and a reduction in taxes. Changes in working capital, including accounts receivable, inventory and accounts payable, did not have a significant impact on the comparison of cash flow from operations from fiscal 2013 to fiscal 2012. These items are more fully described below.

In fiscal 2012, we paid \$212 million in settlement payments to the IRS. We completed these settlement payments in fiscal 2012, which resulted in a favorable comparison in cash flow from operations related to this item in fiscal 2013. Excluding the IRS settlement payment comparison, the combined impact of changes in deferred taxes and changes in accrued income taxes was a decrease of \$171.5 in cash flow from operations in fiscal 2013 as compared to fiscal 2012. This decrease resulted primarily from decreased tax expense of \$107.4 million year over year and an increase in non-IRS tax payments of \$59.6 million which were primarily foreign tax payments related to a one-time transaction as well as increased earnings in these jurisdictions.

The increase in non-cash depreciation and amortization expense of \$95.6 million was primarily related to assets that were not in service in fiscal 2012 that were in service in fiscal 2013. These assets include our software related to our Business Transformation Project, which was placed into service in August 2012, as well as various new facilities and expansions.

Multiemployer and company-sponsored pension expense and contributions resulted in a favorable comparison of \$69.9 million in cash flow from operations in fiscal 2013 as compared to fiscal 2012. Provisions for multiemployer pension withdrawals increased \$20.0 million in fiscal 2013 as compared to fiscal 2012, and payments for withdrawals decreased \$1.8 million. Company-sponsored pension contributions decreased \$68.9 million year over year, which was partially offset by a decrease in company-sponsored pension expense of \$20.8 million.

The comparison of cash flow from operations from fiscal 2013 to fiscal 2012 was negatively impacted by an unfavorable change of \$56.4 million in other assets. This unfavorable change resulted primarily from an increase in cash in the prior year from the redemption of approximately \$75 million of our COLI policies. These COLI policies were maintained to meet a portion of our obligations under the SERP and were replaced by less volatile corporate-owned real estate assets as part of our plan to reduce the market-driven COLI impact on our earnings. There was no similar redemption in fiscal 2013. Other miscellaneous changes in other assets partially offset this decrease year over year.

Investing Activities

Fiscal 2014 capital expenditures included:

- fleet replacements;
- construction of fold-out facilities in Ontario, Canada and Dublin, Ireland;
- replacement or significant expansion of facilities in Phoenix, Arizona; Sacramento, California; Philadelphia, Pennsylvania and Harrisonburg, Virginia; and
- investments in technology.

Fiscal 2013 capital expenditures included:

- fleet replacements;
- construction of a fold-out facility in southern California;
- replacement or significant expansion of facilities in Atlanta, Georgia; British Columbia, Canada; Boston, Massachusetts and Columbia, South Carolina; and
- investments in technology.

Fiscal 2012 capital expenditures included:

- replacement or significant expansion of facilities in San Diego, California; Boston, Massachusetts; Lincoln, Nebraska; Syracuse, New York and central Texas;
- construction of fold-out facilities in southern California and Long Island, New York;
- the continued remodeling of our shared services facility purchased in fiscal 2010;
- fleet replacements; and
- investments in technology including our Business Transformation Project.

The level of capital expenditures in fiscal 2014 was mostly consistent with fiscal 2013, representing a small increase of \$11.3 million. Capital expenditures in fiscal 2013 decreased by \$272.6 million from fiscal 2012 primarily due to less investment in technology in fiscal 2013 related to our Business Transformation Project due to the initiation of the project's deployment phase in August 2012. Capital expenditures in fiscal 2014, 2013 and 2012 for our Business Transformation Project were \$33.4 million, \$20.0 million and \$146.2 million, respectively.

We estimate our capital expenditures, net of proceeds from sales of assets, in fiscal 2015 should be in the range of \$500 million to \$550 million. Fiscal 2015 expenditures will include facility, fleet and other equipment replacements and expansions; new facility construction, including fold-out facilities; and investments in technology.

During fiscal 2014, in the aggregate, the company paid cash of \$79.3 million for operations acquired during fiscal 2014 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2014, we acquired for cash operations in Meridian, Idaho; Landover, Maryland; St. Louis, Missouri; Cleveland, Ohio and Philadelphia, Pennsylvania.

During fiscal 2013, in the aggregate, the company paid cash of \$397.4 million for operations acquired during fiscal 2013 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2013, we acquired for cash foodservice operations in Nassau, Bahamas; San Francisco, California; San Jose, California; Stockton, California; Ontario, Canada; Quebec, Canada; Orlando, Florida; Dublin, Ireland; St. Cloud, Minnesota; Co. Down, Northern Ireland; Greenville, Ohio and Houston, Texas.

During fiscal 2012, in the aggregate, the company paid cash of \$110.6 million for operations acquired during fiscal 2012 and for contingent consideration related to operations acquired in previous fiscal years. During fiscal 2012, we acquired for cash broadline foodservice operations in Sacramento, California; Quebec, Canada; New Haven, Connecticut; Grand Rapids, Michigan; Minneapolis, Minnesota; Columbia, South Carolina and Spokane, Washington. In addition, Sysco acquired for cash a company that distributes specialty imported products headquartered in Chicago, Illinois.

Free Cash Flow

Free cash flow represents net cash provided from operating activities less purchases of plant and equipment plus proceeds from sales of plant and equipment. Sysco considers free cash flow to be a non-GAAP liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases and sales of buildings, fleet, equipment and technology, which may potentially be used to pay for, among other things, strategic uses of cash including dividend payments, share repurchases and acquisitions. We do not mean to imply that free cash flow is necessarily available for discretionary expenditures, however, as it may be necessary that we use it to make mandatory debt service or other payments. As a result of decreased cash provided by operating activities and increased capital spending, partially offset by increased proceeds from sales of plant and equipment, free cash flow for fiscal 2014 decreased 2.0%, or \$19.9 million, to \$995.4 million as compared to fiscal 2013. Increased cash provided by operating activities, partially offset by increased capital spending, resulted in free cash flow for fiscal 2013 increasing 61.7%, or \$387.4 million, to \$1.0 billion as compared to fiscal 2012.

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Free cash flow should not be used as a substitute in assessing the company's liquidity for the periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. In the tables that follow, free cash flow for each period presented is reconciled to net cash provided by operating activities.

	2014	2013	Change in Dollars	% Change
	(Dollars in thousands)			
Net cash provided by operating activities (GAAP)	\$ 1,492,815	\$ 1,511,594	\$ (18,779)	(1.2) %
Additions to plant and equipment	(523,206)	(511,862)	(11,344)	(2.2)
Proceeds from sales of plant and equipment	25,790	15,527	10,263	66.1
Free Cash Flow (Non-GAAP)	\$ 995,399	\$ 1,015,259	\$ (19,860)	(2.0) %

	2013	2012	Change in Dollars	% Change
	(Dollars in thousands)			
Net cash provided by operating activities (GAAP)	\$ 1,511,594	\$ 1,404,180		